PRELIMINARY OFFICIAL STATEMENT
DATED JANUARY 13, 2009

Expected Ratings: Moody's: "A3"
S&P: "A+"
(See "RATINGS" herein.)

NEW ISSUE: BOOK-ENTRY-ONLY

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS OR, EXCEPT AS DESCRIBED HEREIN, CORPORATIONS. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

$17,830,000
THE WOODLANDS TOWNSHIP
SALES TAX AND HOTEL OCCUPANCY TAX BONDS
SERIES 2009

Dated: January 15, 2009 **Due**: March 1, as shown on the inside cover page

The Bonds are issued pursuant to a Bond Resolution by The Woodlands Township (the "Township"), a political subdivision of the State of Texas situated in Montgomery and Harris Counties, to partially refund a portion of the redemption price of the Township's $16,440,000 Bond Anticipation Note, Series 2008, dated November 4, 2008 and set to mature November 4, 2009 (the "BAN"). The BAN was issued by the Township to finance the initial deposits by the Township into the regional participation funds established with the City of Houston, in the amount of $16,000,000, and with the City of Conroe, in the amount of $320,000, pursuant to the Regional Participation Agreements (the "RPAs") between the Township and such municipalities. The Bond proceeds will also fund a debt service reserve fund for the Bonds, and to pay Bond issuance expenses. The Township is authorized to issue the Bonds pursuant to Chapter 289, Acts of the 73rd Legislature, Regular Session, 1993, as amended (the "Enabling Act").

The Bonds, the Outstanding Bonds and any Additional Parity Bonds (as defined herein) are special limited obligations of the Township and are not obligations of any of the other political subdivisions overlapping the Township or of Montgomery County, Harris County or the State of Texas. The Bonds, the Outstanding Bonds and any Additional Parity Bonds (as defined herein) are payable solely from and secured by a lien on certain revenues, as described in the Bond Resolution and herein, which includes a portion of the revenues derived by the Township from collection of a Sales and Use Tax imposed on all taxable transactions in the Township, and revenues derived by the Township from collection of a Hotel Occupancy Tax imposed by the Township on all hotel room rentals in the Township (the "Pledged Revenues"). The owners of the Bonds shall never have the right to demand payment of any Bond out of any funds raised or to be raised by taxation, other than the revenues and funds pledged in the Bond Resolution.

The Bonds will be issued as current interest bonds in denominations of $5,000, or any integral multiple thereof, and will mature and bear interest at fixed rates, as described herein. Interest on the Bonds will accrue from the date of delivery (the "Delivery Date"), and will be payable each March 1 and September 1, commencing September 1, 2009.

The Bonds will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as depository for the Bonds. The Bonds will initially be available for purchasers only in book-entry form, and such purchasers will not receive certificates representing their beneficial ownership therein. As long as Cede & Co. is the exclusive registered owner of the Bonds, payments of principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar") to DTC, which will be responsible for making such payments to its participants for subsequent remittance to the beneficial owners as described herein.

Certain of the Bonds are subject to redemption prior to maturity as described herein.

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS FOR THE BONDS

The Bonds are offered for delivery, when issued, and received by the Underwriters listed below (the "Underwriters") thereof subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bond Counsel, Schwartz, Page & Harding, L.L.P., Houston, Texas, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas and certain legal matters will be passed upon for the Township by its Disclosure Counsel, Fulbright & Jaworski L.L.P., Houston, Texas. Certain legal matters will be passed upon for the Underwriters by Andrews & Kurth, L.L.P., Houston, Texas .The Bonds are expected to be available for delivery in book-entry form through DTC on or about January 30, 2009.

EDWARD JONES

CITIGROUP GLOBAL MARKETS **MERRILL LYNCH**

MATURITY AND PRICING SCHEDULE

$17,830,000
THE WOODLANDS TOWNSHIP
SALES TAX AND HOTEL OCCUPANCY TAX BONDS
SERIES 2009

Maturity Date (March 1)	Principal Amount(a)	Interest Rate	Reoffering Yield	CUSIP(b)
2010	$ 670,000			
2011	685,000			
2012	705,000			
2013	725,000			
2014	745,000			
2015	765,000		(c)	
2016	795,000		(c)	
2017	820,000		(c)	
2018	850,000		(c)	
2019	885,000		(c)	
2020	925,000		(c)	
2021	965,000		(c)	
2022	1,015,000		(c)	
2023	1,065,000		(c)	
2024	1,120,000		(c)	
2025	1,175,000		(c)	
2026	1,240,000		(c)	
2027	1,305,000		(c)	
2028	1,375,000		(c)	

(a) Certain of the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriters elect to aggregate one or more maturities as Term Bonds.

(b) CUSIP Numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the Township, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) The Township reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2015, in whole or from time to time in part, in principal amounts of $5,000, or any integral multiple thereof, on March 1, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

MANAGEMENT AND ORGANIZATION OF THE TOWNSHIP

The Woodlands Township Board of Directors

Director's Name	Position	Elected or Appointed	Occupation	Term Expires
Nelda Luce Blair	Chairman	Elected	Attorney, The Blair Law Firm, P.C.	May 2011
Lloyd W. Matthews	Vice Chairman	Appointed	Retired, former petrochemical company manager	May 2010
Bruce Tough	2nd Vice Chairman	Elected	Attorney, Tough Law Firm, PLLC	May 2011
Alex Sutton III	Secretary	Elected	President, The Woodlands Development Co.	May 2010
Vicki D. Richmond	Treasurer/Asst. Secretary	Elected	Financial Consultant, Vicki Richmond Ventures	May 2010
Thomas Campbell	Director	Elected	Retired, First Vice President of The Woodlands Community Assoc.	May 2010
Kemba Degroot	Director	Elected	Business Owner, self-employed	May 2010
Peggy S. Hausman	Director	Elected	Community Volunteer	May 2011
Robert Kinnear	Director	Appointed	Retired, former executive Chevron Pipeline Co.	May 2010
Edmund W. Robb III	Director	Appointed	Senior Minister, The Woodlands United Methodist Church	May 2010
Claude Hunter	Director	Elected	Retired, Community Volunteer	May 2010

The Woodlands Township Staff

Employee Name	Position	Date of Hire
Don Norrell	President	10/15/2008
Brian Pate	Interim Vice President - Finance & Administration	(1)
Nick Wolda	Vice President - Marketing & Public Affairs	11/16/1999
Steve Sumner	Vice President - Operations & Public Safety	3/1/2001
Anjanette Sauers	Accounting Manager	3/14/2002
Marcy Hicks	Human Resources Manager	3/21/2005
Casey Snyder	Marketing Manager	5/22/2006
Kelly Overbeck	Business Development Manager	2/7/2008
Carolyn Pennell	Operations Manager	1/3/2000
Marian Leck	Public Safety Manager	1/10/2005
Russell Davis	Pubic Facilities Manager	7/16/2007

(1) Originally hired on February 12, 2003 and served as Vice President – Finance and Administration until April 1, 2008. Currently serving the Woodlands Township in a consulting capacity.

Consultants and Advisors

Bond Counsel	Schwartz, Page & Harding L.L.P.
Disclosure Counsel	Fulbright & Jaworski L.L.P.
Financial Advisor	First Southwest Company

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an Official Statement of the Township with respect to the Bonds that has been deemed "final" by the Township as of its date except for the omission of no more than the information permitted by the Rule.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The registration or qualification of the Bonds in accordance with applicable provisions of securities law of the states in which the Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof.

In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Township.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the office of The Woodlands Township, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, TX 77380.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Township or other matters described herein since the date hereof. However, the Township has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the Township and, to the extent that relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "UPDATING OF OFFICIAL STATEMENT."

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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PRELIMINARY OFFICIAL STATEMENT
Relating to the
$17,830,000
THE WOODLANDS TOWNSHIP
SALES TAX AND HOTEL OCCUPANCY TAX BONDS,
SERIES 2009

INTRODUCTION

This Official Statement, which includes the cover page hereof and the Appendices attached hereto, is furnished in connection with the offering by The Woodlands Township, a political subdivision of the State of Texas, situated in Montgomery and Harris Counties (the "Township"), of its Sales Tax and Hotel Occupancy Tax Bonds, Series 2009 (the "Bonds"), in the aggregate principal amount of $17,830,000. The Bonds are being issued to partially refund a portion of the redemption price of the Township's BAN; to fund a debt service reserve fund for the Bonds; and to pay the issuance expense of the Bonds.

The Bonds are issued pursuant to Chapter 289, Acts of the 73rd Legislature, Regular Session, 1993, as amended (the "Enabling Act"), Senate Bill 1012, Acts of the 80th Texas Legislature, Regular Session, 2007 (the "RPA Act"), and the resolution of the Board of Directors of the Township authorizing the issuance of the Bonds (the "Bond Resolution"). Copies of the Bond Resolution are available upon request and payment of reproduction costs at the office of The Woodlands Township, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, TX 77380.

The Bonds, the Outstanding Bonds and any Additional Parity Bonds (as hereafter defined) are special limited obligations of the Township that are payable from and secured by a pledge of certain revenues (the "Pledged Revenues"), which include all amounts received from time to time by the Township from a portion of the 1% limited sales and use tax (the "Sales Tax") of the Township equal to 1/2 of 1% imposed on all taxable transactions within the Township, and a hotel occupancy tax (the "Hotel Occupancy Tax") imposed on and equal to 7% of the cost of taxable hotel room rentals in the Township. See "SECURITY FOR THE BONDS" and "DESCRIPTION OF PLEDGED REVENUES." The Sales Tax, first effective as of October 1, 1994, was imposed pursuant to an election held on November 2, 1993, at which voters approved the Sales Tax, and an order adopted by the Board of Directors on November 8, 1993. The Hotel Occupancy Tax, first effective as of September 1, 1997, was imposed pursuant to an order adopted by the Board of Directors on July 7, 1997.

In the Bond Resolution, the Township covenants and agrees that the Pledged Revenues are irrevocably pledged to the payment of and security for the Bonds. In the Bond Resolution, the Township covenants and agrees that, while any Bonds are outstanding, it will take all legal means and actions permissible to cause the Sales Tax, at a rate of at least ½%, and the Hotel Occupancy Tax, at a rate of at least 7%, to be levied and collected continuously throughout the boundaries of the Township, as such boundaries may be changed from time to time, in the manner and to the maximum extent legally permitted; and to cause no reduction, abatement or exemption in the Sales Tax or Hotel Occupancy Tax below said rates, until all the Bonds have been paid in full or until they are lawfully defeased in accordance with the Bond Resolution. Such covenant does not require the Township to oppose any proposed change in use or destruction of any retail sales or hotel properties in the Township, and the Township reserves the right to exclude from its boundaries any properties which have never been or have ceased for more than 180 consecutive days to be used for retail sales or hotel purposes, or which have not produced in the previous 180 days material amounts of Sales Tax or Hotel Occupancy Tax revenues.

Following, in this Official Statement are descriptions of the Bonds and certain information regarding the Township and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request and payment of reproduction costs at the office of The Woodlands Township, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, TX 77380.

THE WOODLANDS TOWNSHIP

General

The Woodlands Township is the successor by name change to the former Town Center Improvement District of Montgomery County, Texas (the "District"), a political subdivision of the State of Texas created, established and operating pursuant to the Enabling Act. As originally organized, the District was created to provide improvement projects, services and facilities to promote, encourage and maintain employment, commerce, economic development and the public welfare within the Town Center area of the 28,000-acre development known as The Woodlands. In particular, the District's services, programs and facilities were focused on public safety and economic development within The Woodlands Town Center and the adjacent impacted areas.

Until November 16, 2007, the District contained less than 1,000 acres of territory in the central business core of The Woodlands, generally bounded on the south by Woodlands Parkway, on the east by Interstate Highway 45, on the north by State Highway 242 and on the west by Grogan's Mill Road. The balance of approximately 27,000 acres of The Woodlands, consisting of residential villages, village shopping centers, educational and institutional facilities, service and retail outlets, and parks, recreational facilities and open spaces, were situated adjacent to, but outside of, the boundaries of the District in both Montgomery and Harris Counties. Substantially all of The Woodlands is unincorporated and situated within the exclusive extraterritorial jurisdiction of the City of Houston, Texas. The remaining unincorporated portion of approximately 800 acres is situated within the exclusive extraterritorial jurisdiction of the City of Conroe, Texas. As such, substantially all of The Woodlands, including the Town Center area, was subject to the general annexation powers of such municipalities.

Following a lengthy review and public discussion of future governance options for The Woodlands, a community consensus was developed in 2006 that The Woodlands should ultimately be released from the extraterritorial jurisdictions of both municipalities and no longer be subject to annexation by such municipalities; that The Woodlands should be afforded an opportunity for self-determination of its future form of local government; and that in consideration for the release by such municipalities from their respective jurisdictions of the territory of The Woodlands in the future, RPAs should be concluded between The Woodlands and the City of Houston and the City of Conroe providing for such release and requiring The Woodlands to financially contribute to regional improvement projects of mutual benefit to The Woodlands and to the City of Houston and the City of Conroe. Pursuant to the authority of the RPA Act, the District, on behalf of the entirety of The Woodlands, entered into the RPAs with the City of Houston and the City of Conroe pursuant to which the unincorporated portions of The Woodlands situated within the exclusive extraterritorial jurisdiction of each municipality would be released, upon request of the District, from such jurisdictions on or after May 29, 2014, and for a period of fifty (50) years following the effective date of the RPAs, such territory could not be annexed by either the City of Houston or the City of Conroe without the consent and agreement of the District. In return, the District agreed to make both initial and continuing deposits into a regional participation fund established with each municipality which, together with funds provided by each municipality, would be used to finance future public improvement projects of mutual benefit to the District and such municipality. The initial deposit to be made by the District to the City of Houston regional participation fund was a lump sum amount of $16,000,000, while the initial deposit to the City of Conroe regional participation fund was $320,000. Such initial deposits were fully and timey made with the proceeds of the BAN. The continuing quarterly deposits to be made to both the City of Houston and the City of Conroe in perpetuity are equal to the amount derived from the levy and collection of a Sales Tax of one-sixteenth cent within the areas formerly included within the exclusive extraterritorial jurisdiction of each municipality. At current sales tax collection rates, the aggregate annual amount of such continuing annual deposits to both regional participation funds is estimated at nearly $1,000,000.

Pursuant to further amendments made to the Enabling Act in 2007, the District was authorized to call an election to be held on November 6, 2007, within the boundaries of the entire unincorporated area of The Woodlands to determine whether the boundaries of the District should be expanded to include all of such territory, to establish the effective date of the RPAs as of November 16, 2007, to give effect to the change of name of the District to The Woodlands Township, to authorize the imposition of the District's previously approved Sales Tax and Hotel Occupancy Tax within the expanded boundaries of the District, and to authorize the imposition and collection of an ad valorem tax, without limit as to rate or amount, throughout the expanded boundaries of the District. On November 16, 2007, the results of such election were declared to have resulted overwhelmingly in favor of such propositions. The Bonds are being issued to partially refund a portion of the redemption price of the Township's BAN; to fund a debt service reserve fund for the Bonds; and to pay the issuance expense of the Bonds. The balance of the redemption of the BAN will be paid by current revenues of the Township.

The Woodlands Township Economic Development Zone

Pursuant to Section 11C of the Enabling Act, the Township has created and established over all of the boundaries of the Township, save and except the portion of the Township situated in Harris County and containing approximately 6,500 acres, a political subdivision known and designated as The Woodlands Township Economic Development Zone (the "EDZ"). Pursuant to the Enabling Act and a previous election within the Township, the EDZ is authorized to impose and collect a local sales and use tax of up to one percent (1%) and has entered into an interlocal agreement remit the proceeds of such collections to the Township for the continuing funding of public services and facilities essential to the economic development and health of the Township, including fire and emergency medical services. Sales and use tax revenues of the EDZ are not pledged, in whole or in part, to the Bonds. The governing body of the EDZ is appointed by the Board of Directors of the Township and presently all members of the Board of Directors of the Township serve in an ex-officio capacity as members of the governing body of the EDZ. The duration of the EDZ is unlimited, and in the agreement between the EDZ and the Township, the EDZ has covenanted and agreed that such one percent (1%) sales and use tax will be continued in effect at such rate indefinitely.

Transition of Local Government

Until recently, all public facilities and services not provided by the Township, and not required by law to be provided by the State of Texas, Montgomery County, Harris County, Conroe Independent School District or Tomball Independent School District were provided and funded by one (1) of three (3) community associations in The Woodlands through the imposition and collection of property assessments. Pursuant to the authority of the 2007 legislative amendments to the Enabling Act, on February 1, 2008, the Township entered into an agreement (the "Transition Agreement") with all of the community associations and their affiliated companies to consolidate the assets, liabilities, functions, facilities and services of such organizations into the Township. Subject to certain conditions provided in the Transition Agreement and to the imposition by the Township in the Fall of 2009 of a local ad valorem tax sufficient for such purposes, the existing community associations will be dissolved and their respective assessments discontinued, and the Township will undertake the funding and provision of all of such community services within the Township. Contemporaneously, the Board of Directors of the Township will be reduced from eleven (11) members to seven (7) members elected at-large by all eligible voters of the Township. No final determination has yet been made as to what level of ad valorem taxation will be required by the Township to assume and fund such additional community services and functions; however, the management of both the Township and the community associations anticipate that, in addition to the Township 1% Sales Tax and 7% Hotel Occupancy Tax, and the EDZ's 1% sales and use tax, an initial Township ad valorem tax rate of approximately $0.35 per $100 of taxable valuation will be required.

THE WOODLANDS

General

The Woodlands is a community being developed approximately 27-32 miles north of downtown Houston. Located within a 28,000-acre tract of densely forested land, the community is generally situated adjacent to and west of Interstate Highway 45, south of FM 1488, and along Spring Creek, the boundary line between Montgomery and Harris Counties. Additional acreage, known as The Woodlands Trade Center ("Trade Center"), is adjacent to and east of Interstate Highway 45 between Texas State Highway 242 and FM 1488.

The Woodlands is located in a market sector of the greater Houston metropolitan area containing approximately 150 residential developments. Residential developments located in the market sector offer a variety of housing ranging in price generally from $100,000 to in excess of $1.5 million. The majority of these subdivisions offer some recreational facilities (e.g., swimming pools and clubhouses) and a few provide golf and tennis facilities. In some cases, schools are located within the subdivisions.

Formal opening of The Woodlands occurred in October, 1974. Substantial development has occurred in the Village of Grogan's Mill, the Village of Panther Creek, the Village of Cochran's Crossing, the Village of Indian Springs, the Village of Alden Bridge, Carlton Woods, the Village of Sterling Ridge, and College Park, which are eight of the nine residential villages planned for The Woodlands; parts of the Town Center, Research Forest and College Park; and the Trade Center. The ninth residential village, Creekside Park, is currently undergoing residential development. See "APPENDIX D" for a location map of The Woodlands.

Access and Circulation

Primary access to The Woodlands is provided by Interstate Highway 45, an eight lane limited access highway running in a north-south direction. The Woodlands has direct access by way of five freeway intersections, Woodlands Parkway, Rayford-Sawdust Road, Lake Woodlands Drive, Research Forest Drive (Tamina Road) and College Park Drive (Texas State Highway 242). Additional access between The Woodlands and downtown Houston and the Houston Intercontinental Airport is provided by the Hardy Toll Road, which is owned and operated by the Harris County Toll Road Authority. An alternate access is provided from the FM 1960 area to The Woodlands via Kuykendahl Road in the westernmost portions of The Woodlands. Texas State Highway 242, a major east-west artery, connects U.S. 59, in southeast Montgomery County, to FM 1488, in the northern portion of The Woodlands.

The internal circulation system within The Woodlands, designed to enhance and preserve the community's natural surroundings, is planned to include arterials, collector and local streets; bicycle paths; and pedestrian walkways.

Commercial, Industrial and Technology Development

Substantially all of The Woodlands is located within the boundaries of the Township. The following information provided by The Woodlands Land Development Company, L.P. summarizes the current population and status of development of The Woodlands as of June 30, 2008.

Commercial/Industrial	
	(square footage)
Retail/Hospitality/ General Commercial	8.8 million
Office	7.2 million
Industrial/Technical	3.7 million
Institutional	4.4 million
Total Non-Residential	24.1 million
Residential	
Homes	26,855
Apartments	5,125
Attached Homes	2,940
Total Units	34,920
Other	
Employers	1,511
Employees	42,190
Pathways	155 miles
Parks	108
Population	88,000

Effect of Hurricane Ike on the Township

The Houston/Galveston metropolitan areas, including The Woodlands, were struck by Hurricane Ike on September 12, 2008, and suffered significant wind-related damages, including loss of most electrical services. However, as of this date, all electrical and utility services have been restored in The Woodlands. Debris removal is nearing completion and most of the significant damage. For the eleven months ended November 30, 2008, Sales and Use Tax and Hotel Occupancy Tax collected by the Township and the EDZ totaled $18,061,435 and $3,808,498, respectively. Currently, only one of the Township's significant Sales Tax payors, The Cynthia Woods Mitchell Pavilion, is still closed and undergoing major repairs as a result of Ike. However, it is anticipated that The Cynthia Woods Mitchell Pavilion will open for business in April 2009 with an expanded covered seating capacity of approximately 6,500, up from a previous capacity of 2,800. The Township's management does not anticipate the effects of Hurricane Ike to have any long-term material impact upon the Sales Tax or Hotel Occupancy Tax revenues of the Township.

USE OF BOND PROCEEDS*

The following schedule of uses is net of accrued interest.

USES

BAN Redemption Deposit	$16,440,000
Cost of Issuance [(1)]	347,598
Underwriters' Discount [(2)]	334,684
Debt Service Reserve Fund Deposit	707,718
Total Uses	$17,830,000

[(1)] Includes additional proceeds due to rounding amount
[(2)] Estimated
*Preliminary, subject to change.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued in the original principal amount of $17,830,000 and will be issued as current interest bonds, in denominations of $5,000 principal amount, or any integral multiple thereof.

The Bonds will be dated January 15, 2009, and will bear interest from the Delivery Date at the fixed interest rates shown on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing September 1, 2009. The Bonds will mature on the dates and in the principal amounts shown on the inside cover page hereto.

The Bonds will mature on their stated dates unless redeemed prior to such dates, as described herein. For as long as the Bonds are book-entry bonds, as described below under "Book-Entry Only System," payment of the principal of, premium, if any, and interest on such Bonds shall be made and given in accordance with DTC's operational arrangements. If in the future the Bonds cease to be book-entry bonds, the principal of any Bond will be payable, on presentation and surrender of such Bond, in lawful money of the United States of America, without exchange or collection charges to the registered owner of such Bond, at the principal payment office of the Paying Agent/Registrar for the Bonds. All interest accruing prior to maturity on any Bond that ceases to be a book-entry bond shall be paid by check or draft mailed to the registered holder of such Bond at its address as it appears on the registration books of the Paying Agent/Registrar.

Transfer & Exchange

Except as described below under "Book-Entry Only System," the Bonds shall be transferable only upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar, acting in its capacity as bond registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered owner or his authorized representative in a form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore, a new Bond or Bonds registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount, and bearing or accruing interest at the same rate as the Bond or the Bonds so presented and surrendered. The Paying Agent/Registrar may require the registered owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond and any legal or unusual costs regarding transfers and exchanges of Bonds.

Ownership

The Township, the Paying Agent/Registrar, and any other person may treat the person in whose name any Bond is registered as the absolute registered owner of such Bond for the purpose of making payment of the principal and premium, if any, on such Bond, and for the further purpose of making payment of interest thereon, for the purpose of giving notice to the holder of such Bond, and for all other purposes, whether or not such Bond is overdue, and neither the Township nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the holder of any Bond in accordance with the applicable Bond Resolution shall be valid and effectual and shall discharge the liability of the Township and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A. is the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. Principal of the Bonds is payable upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar in Dallas, Texas. Interest on the Bonds will be payable by check dated as of the applicable Interest Payment Date, and mailed to the registered owners shown on the respective registration books for the Bonds (the "Register") maintained by the Paying Agent/Registrar on the close of business on the 15th day of the calendar month immediately preceding the applicable Interest Payment Date (the "Record Date"). Any accrued interest payable at maturity or redemption of the Bonds will be paid upon presentation and surrender of such Bonds at the principal corporate trust office of the Paying Agent/Registrar in Dallas, Texas.

Book-Entry Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Township and the Financial Advisor believe the source of such information to be reliable, but neither of the Township or the Financial Advisor take any responsibility for the accuracy or completeness thereof.

The Township cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. ("Registered Owner") (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Township as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Township or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the Township, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Township or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Township or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, printed certificates for the Bonds are required to be printed and delivered

The Township may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC or its successor.

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Resolution will be given only to DTC.

The Information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the Township believes to be reliable, but the Township takes no responsibility for the accuracy thereof.

Optional Redemption

The Township reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2015, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Mandatory Redemption

In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule above are combined to create one or more Term Bonds, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on March 1 of the first year which has been combined to form such Term Bond and continuing on March 1 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule above. Term Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Bonds then subject to redemption.

As provided in the Bond Resolution, the principal amount of Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the Township, by the principal amount of Term Bonds of the same maturity which (i) shall have been acquired by the Township at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

Not less than thirty (30) days prior to the date fixed for any optional redemption, the Township shall cause a written notice of such redemption to be sent to the registered owner of each Bond being called for optional redemption by depositing such notice in the United States mail, first class postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar. Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given, the Bonds called for optional redemption shall become due and payable on the specified redemption date, and notwithstanding that any Bond or portion thereof has not been surrendered for payment, interest on such Bond or portion thereof shall cease to accrue. Notice of mandatory redemption of Term Bonds will not be given.

SECURITY FOR THE BONDS

General

The Bonds, together with the remaining outstanding portion of the Township's Outstanding Bonds and any Additional Parity Bonds (as defined herein) are payable from and secured by a lien on certain Pledged Revenues, which consist of: (i) the portion of the Township Sales Tax revenues received from a ½ of 1% sales tax collected within the Township and (ii) Hotel Occupancy Tax revenues received from a 7% tax on hotel room rentals in the Township, as provided in the Bond Resolution and described herein. The Pledged Revenues are pledged in the Bond Resolution to the payment of the principal of and the interest on the Bonds, the Outstanding Bonds and any Additional Parity Bonds (as hereafter defined) issued in conformity with the provisions of the Bond Resolution to the extent and in the manner therein set forth. The Pledged Revenues shall immediately be subject to the lien of such pledge, without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding against all parties having a claim of any kind in tort, contract or otherwise against the Township, irrespective of whether such parties have notice thereof. Except as provided otherwise in the Bond Resolution, the lien and pledge thereby created shall remain in full force and effect until the Bonds have been paid in full, as to both principal and interest at their scheduled maturities, or upon their earlier redemption, or by reason of the defeasance and discharge, as provided in the Bond Resolution.

The Township has covenanted in the Bond Resolution that, so long as the Bonds remain outstanding, it will not reduce or permit to be reduced the Township's Sales Tax below a rate of ½% or its Hotel Occupancy Tax below a rate of 7%. The area within the Township is currently within the extraterritorial jurisdictions of the City of Houston and the City of Conroe, and but for the RPAs and the RPA Act, would be subject to the general annexation powers of such municipalities; however as described above, the RPAs and the RPA Act preclude annexation of the Township by either of such municipalities for up to fifty (50) years from November 16, 2007, and permit the Township after May 29, 2014, to be released from the extraterritorial jurisdiction of such cities and to incorporate or adopt a different form of local government. In all events, the Enabling Act provides that the Township is not dissolved by annexation, incorporation, or adoption of a new form of government without the approval of the Board and assumption by the new government of the outstanding bonds. If, however, the Township incorporated or adopted a different form of government after May 29, 2014, under Texas law there could be a transfer of significant government functions and responsibilities from Montgomery County to the incorporated or new form of government, which could significantly affect the Township's expenses.

Limited Obligations

The Bonds are special limited obligations of the Township and not obligations of the State of Texas, Montgomery County, Harris County, the City of Houston, the City of Conroe or any other political subdivision of the State of Texas, including other political subdivisions overlapping the Township. Except for the limited special tax revenues included within Pledged Revenues, the owners of the Bonds shall never have the right to demand payment thereof out of any other funds raised or to be raised by taxation. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon the property of the Township, except with respect to the Pledged Revenues.

Debt Service Reserve Requirements

In accordance with the terms of the Bond Resolution and the resolution authorizing issuance of the Outstanding Bonds, a Debt Service Reserve Fund is to be maintained by the Township as security for the payment of the Bonds and the Outstanding Bonds. The total amount to be maintained in such Debt Service Reserve Fund is $2,584,475* (the "Required Reserve"), which amount is equal to one half (1/2) of the maximum annual debt service on the Bonds and the Outstanding Bonds (in Township's Fiscal Year 2024). As of November 30, 2008, the balance in the Debt Service Reserve Fund was $1,877,188, with the balance of the Required Reserve to be fully funded from the proceeds of the sale of the Bonds. As and when Additional Parity Bonds are issued or incurred, the total amount to be accumulated and maintained in such Account shall be adjusted to an amount equal to the lesser of (i) one half (1/2) of the maximum annual Debt Service (calculated on a fiscal year basis) for all Bonds, Outstanding Bonds and Additional Parity Bonds then outstanding (after giving effect to the issuance of the Additional Parity Bonds), as determined on the date each series of Additional Parity Bonds are delivered or incurred, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. The Bond Resolution contains provisions allowing for the substitution of a municipal bond guaranty insurance policy or a letter or line of credit meeting certain requirements set forth in the Bond Resolution for the funds required to be maintained in the Debt Service Reserve Fund.

Additional Bonds

In the Bond Resolution, the Township reserves the right to issue Bonds payable from and equally and ratably secured by a parity lien on and pledge of the Pledged Revenues (the "Additional Parity Bonds") subject to satisfying certain terms and conditions including that, according to the books and records of the Township, the Pledged Revenues received by the Township for the most recently completed fiscal year or for any twelve consecutive months out of the eighteen months next preceding the adoption of the resolution authorizing the issuance of the Additional Parity Bonds should have been not less than 130% times maximum annual debt service (calculated on a fiscal year basis) for all Bonds, Outstanding Bonds and Additional Parity Bonds that will be outstanding upon the issuance of such Additional Parity Bonds.

The Township also reserves the right in the Bond Resolution to: (i) issue additional subordinate lien bonds in one or more installments and upon such terms and conditions as the Township deems advisable; (ii) issue refunding bonds in any manner permitted by law to refund the Bonds, the Outstanding Bonds and any Additional Parity Bonds at or prior to their respective dates of maturity or redemption; and (iii) issue other bonds, notes or indebtedness, including, without limitation, special project bonds for any lawful purpose so long as same are payable from and secured by any resources, assets, income or revenues of the Township, other than the Pledged Revenues.

Remedies

The Bond Resolution does not establish specific events of default with respect to the Bonds, nor does it provide for acceleration of maturity of the Bonds or any other specific remedy in the event of a default in payment or upon the failure of the Township to observe any covenant under the Bond Resolution. Although a registered owner of Bonds could presumably obtain a judgment against the Township to observe any covenant under the Bond Resolution if a default occurred in the payment of the principal or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the Township other than the Pledged Revenues. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Township to observe or perform any of its obligations under the Bond Resolution. The enforcement of any such remedy may be difficult and time-consuming, and a registered owner could be required to enforce such remedy on a periodic basis. The Bond Resolution does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the Township to perform in accordance with the terms of the Bond Resolution, or upon any other condition. Furthermore, the Township is eligible to seek relief from its creditors under the U.S. Bankruptcy Code. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of rights and remedies of registered owners of the Bonds is limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Township. If the Township proceeded voluntarily under Chapter 9 of Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other matters, reduce or eliminate the principal amount of the Township's indebtedness, defer or rearrange the Township's debt service schedule, reduce or eliminate interest, modify or abrogate collateral or security arrangements, substitute (in whole or in part) other securities, or otherwise compromise and modify the rights and remedies of the registered owners of the Bonds and their claims against the Township.

*Preliminary, subject to change.

DESCRIPTION OF PLEDGED REVENUES

General

The Pledged Revenues that secure the Bonds include only the portions of the Township's Sales Tax revenues and Hotel Occupancy Tax revenues described in the Bond Resolution and below.

Sales Tax

Source and Authorization. The Township currently imposes a Sales Tax of 1% on all taxable transactions within the Township, as approved by Township voters at an election held on November 2, 1993 and pursuant to authority of the Enabling Act. However, under the Enabling Act, only ½ of 1% of the Township's Sales Tax revenues are and may be pledged to secure the Bonds.

The Comptroller of Public Accounts of the State of Texas (the "Comptroller") began collecting the Sales Tax on transactions within the original boundaries of the Township on and after October 1, 1994 and within the expanded boundaries of the Township on April 1, 2008. The Sales Tax is levied and collected against the receipts from the sale at retail of taxable items within the Township. The Sales Tax also is an excise tax on the use, storage or other consumption of taxable tangible personal property purchased, leased or rented from a retailer within the Township. The imposition, computation, administration, governance, abolition and use of the Sales Tax is governed by Chapters 151 and 321, Texas Tax Code, except to the extent that there is a conflict with the Enabling Act, in which case the provisions of the Enabling Act control.

In general, as applied to the Sales Tax, a taxable item includes any tangible personal property and certain taxable services. "Taxable services" include certain amusement services, cable television services, personal services, motor vehicle parking and storage services, the repair, remodeling, maintenance and restoration of most tangible personal property, certain telecommunication services, credit reporting services, debt collection services, insurance services, information services, real property services, data processing services, real property repair and remodeling, security services, telephone answering services, and internet access service. Certain items are exempted by State law from sales and use taxes, including items purchased for resale, certain coin-operated machine sales, food products (except food products which are sold for immediate consumption, e.g. by restaurants, lunch counters, etc.), health care supplies (including medicines, corrective lens and various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), gas and electricity purchased for residential and certain other uses (unless a city has taken steps to repeal the exemption), certain property used in manufacturing, certain telecommunications services, newspapers, magazines, and basic fees for internet access service. During an annual "tax holiday," clothing and other items are exempt. In addition, items which are taxed under other State laws are generally exempted from sales taxes. These items include certain natural resources, cement, motor vehicles and insurance premiums. Alcohol and tobacco products are taxed under both State alcohol and tobacco taxes as well as through the sales and use taxes. In addition, purchases made by various exempt organizations are not subject to the sales and use taxes. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations. Also, State law provides an exemption from sales and use taxes on items purchased under a contract in effect when the legislation authorizing such tax (or the increase in the rate thereof) is enacted, up to a maximum of three years.

In general, a sale of a taxable item is deemed to occur within the political subdivision, county or special district in which the sale is consummated. The tax levied on the use, storage or consumption of tangible personal property is considered to be consummated at the location where the item is first stored, used or consumed. Thus, the use is considered to be consummated in a political subdivision, and the tax is levied there, if the item is shipped from outside the state to a point within the political subdivision.

Other Sales Taxes. In addition to the local sales and use taxes levied by the Township, as described above, the State levies and collects a 6.25% sales and use tax against essentially the same taxable items and transactions as are subject to the Township's Sales Tax. Under current State law, the maximum aggregate local sales and use tax which may be levied within a given area by most political subdivisions within such area is 2%, which when added to the State sales tax rate of 6.25% equals a total rate of 8.25%. Such 2% local limit is not applicable in all circumstances within the Township. An additional 1% sales and use tax is levied by the EDZ in all parts of the Township except the portion located in Harris County pursuant to Section 11C of the Enabling Act. The Harris County portion of the Township is subject to a 1% sales and use tax levied by the Houston Metropolitan Transit Authority.

Collection and Administration. The Comptroller administers and enforces all sales tax laws and collects all sales and use taxes levied by the State, and levying counties, political subdivisions and other special districts having sales tax powers. Certain limited items are taxed for the benefit of the State under sales tax statutes, such as certain natural resources and other items described above, and are not subject to the local sales tax of political subdivisions and counties, including the Township. Political Subdivisions may by local option determine to tax certain telecommunication services on the same basis as the State taxes such services. With respect to the taxation of the residential use of gas and electricity, the State is not authorized to collect a sales and use tax, while political subdivisions, on a local option basis, may tax such use. The Township has opted to tax telecommunication services. The Township has not opted to tax residential uses of gas and electricity. The Township has not opted out of the tax holiday.

In recent years, several changes in the State sales tax laws have contributed to the growth of local sales tax revenues. These changes have added additional goods and services to the list of taxable items. Other items have been subjected to sales and use tax on an interim basis or have been taxed pursuant to legislation which includes planned phase-outs of the tax.

With certain exceptions, sales and use taxes in the State are collected at the point of sale and are remitted to the Comptroller by the "taxpayer" who is, generally speaking, the business that collects the tax resulting from a taxable transaction. Taxpayers owing $500 or more in sales and use tax dollars for a calendar month submit their tax collections to the Comptroller on a monthly basis; taxpayers owing less than $500 in sales and use tax dollars for a calendar month or $1,500 in a calendar quarter submit their tax collections quarterly. Generally, taxpayers are required to submit tax reports to the Comptroller on the same date as payment is due. The Comptroller is required by law to distribute funds to the receiving political subdivisions periodically and as promptly as feasible, but not less frequently than twice during each fiscal year of the State. Historically, and at the present time, the Comptroller distributes the funds monthly, with the largest payments being made quarterly in February, May, August and November. The Comptroller has a direct deposit program using electronic funds transfers to expedite the distribution of monthly allocation checks. If a political subdivision desires to participate in the electronic funds transfers, it may make application to the Comptroller. The Township participates in this program. Otherwise, the Comptroller mails the monthly allocation check, which is typically received by the middle of the month following the month in which the taxpayer reports and remits payment of the tax.

The Comptroller is responsible for enforcing the collection of sales and use taxes in the State. Under State law, the Comptroller utilizes sales tax permits, sales tax bonds and audits to encourage timely payment of sales and use taxes. Each entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. Permits are required for each individual location of a taxpayer and are valid for only one year.. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a bond in an amount sufficient to protect against the failure to pay taxes. The Comptroller's audit procedures include auditing the largest 2% of the sales and use tax taxpayers (who report about 65% of all sales and use taxes in the State annually), each every three or four years. Other taxpayers are selected at random or upon some other basis for audits. The Comptroller also engages in taxpayer education programs and mails a report to each taxpayer before the last day of the month, quarter or year that it covers.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods: (i) collection by an automated collection center or local field office, (ii) estimating the taxpayers' liability based on the highest amount due in the previous 12 months and billing them for it, (iii) filing liens and requiring a new or increased payment bond, (iv) utilizing forced collection procedures, such as seizing assets of the taxpayer (e.g., a checking account) or freezing assets of the taxpayer that are in the custody of third parties, (v) removing a taxpayer's sales and use tax permit, and (vi) certifying the account to the Attorney General's Office to file suit for collection. A political subdivision may not sue for delinquent taxes unless it joins the Attorney General as a plaintiff or unless it first receives the permission of the Attorney General and the Comptroller.

The Comptroller retains 2% of the tax receipts for collection of the tax; additionally, under State law, a taxpayer may deduct and withhold 1/2 of 1% of the amount of taxes due on a timely return as reimbursement for the cost of collecting sales and use taxes. In addition, a taxpayer who prepays its tax liability on the basis of a reasonable estimate of the tax liability for a month or quarter in which a prepayment is made may deduct and withhold 1.75% of the amount of the prepayment in addition to the 1/2 of 1% allowed for the cost of collecting the sales and use tax.

Investor Considerations. Sales Tax receipts received for the benefit of the Township are a primary source of security for the Bonds. The amount of the Pledged Revenues from the Sales Tax is closely related to the amount of economic activity in the Township. Sales and use tax receipts, unlike other taxes levied by political subdivisions, immediately reflect changes in economic conditions.

Historically, the Comptroller has remitted sales and use tax allocation checks to political subdivisions on a monthly basis, but State law currently requires that such allocation be made at least twice annually, and such procedures could change in the future. Additionally, the taxable items and services subject to State and local sales and use taxes are subject to legislative action and have been changed in recent years by the Texas Legislature. State law provides that the Sales Tax cannot be levied against any taxable item or service unless such item or service is also subject to the State sales and use tax.

In recent years the Texas Legislature has enacted laws permitting the State, together with its political subdivisions, to levy sales and use taxes of up to 8.25%, which is among the highest sales tax rates in the nation (although Texas has no personal or corporate income tax), and the current total sales and use tax rate within the Township's boundaries is 8.25%. The rate of the sales and use taxes authorized in the State could be further increased by the Texas Legislature, and the Township has no way of predicting any such increase or the effect that would have on the Sales Tax which secured the Bonds. Any changes which may be enacted by the Texas Legislature could affect the tax base against which the Sales Tax is levied; and the Township, except in certain limited instances described below, has no control over the components of the tax base. The Township has no statutory authority to increase the maximum authorized rate of the Sales Tax.

Tax receipts received by the Township are expected to be subject to seasonal variations and to variations caused by the State laws and administrative practices governing the remittance of sales and use tax receipts which authorize different taxpayers to remit the tax receipts at different times throughout the year.

The Enabling Act provides that Township voters, by majority vote at an election, may repeal the sales and use tax imposed by the Township. However, in the Bond Resolution, the Township has irrevocably pledged the Pledged Revenues to the payment and security of the Bonds and has covenanted that so long as any of the Bonds are outstanding, the Township will take no action to repeal or decrease below ½% the rate of Sales Tax imposed by the Township.

If, in the future the Enabling Act is amended to allow the Township, at its option, to increase the Sales Tax to more than 1%, or to allow the Township to automatically pledge to its bonds a portion of the Sales Tax at a rate of more than ½% of 1%, such additional Sales Tax is not pledged to the Bonds without further action by the Township, which may be taken or withheld by the Township in its sole discretion.

Hotel Occupancy Tax

Township Hotel Occupancy Taxes. The Township's Hotel Occupancy Tax or "HOT" rate is currently 7%, as established by an order of the Board of Directors adopted on July 7, 1997. The Township began collecting the Hotel Occupancy Tax within the original boundaries of the Township on and after September 1, 1997 and within the expanded boundaries of the Township on December 1, 2007. Pursuant to the provisions of the Enabling Act, the Township is authorized, by order of its Board of Directors, to impose the HOT on persons, based upon the price paid, for the use or possession, or right of use or possession, of rooms ordinarily used for sleeping at any hotel in the Township. Under the Enabling Act, the Township HOT may be imposed only for rooms for which the cost of occupancy is at a rate of $2 or more per day and at a rate not to exceed 7% of the price paid for the room. The Township receives HOT collections in the month after they are collected from taxpayers.

The Enabling Act provides that the Township may by order, repeal, increase or decrease the rate of HOT imposed at any time, subject to the current maximum rate of 7% allowed under the Enabling Act. However, in the Bond Resolution, the Township has covenanted and agreed that the HOT revenues, at a rate of 7%, are irrevocably pledged to the payment and security of the Bonds, and that, as long as any of the Bonds are outstanding, the Township will take no action to repeal or decrease below 7% the rate of HOT imposed by the Township. Such covenant does not require the Township to object to any proposed change in use or destruction of any hotel properties in the Township, and the Township may exclude from its boundaries any properties which have never been or have ceased for more than 180 consecutive days to be used for hotel purposes, or which have not in the previous 180 days paid material amounts of HOT revenues.

If in the future the Enabling Act is amended to allow the Township, at its option, to increase the maximum rate of HOT above 7%, any increase in the rate of HOT by the Township will not be pledged to the Bonds without further action of the Township, which may be taken or withheld in the sole discretion of the Township.

Under the Enabling Act, "hotel" means any building or buildings in which the public may, for consideration, obtain sleeping accommodations. The term includes hotels, motels, tourist homes, tourist houses, tourist courts, lodging houses, inns, rooming houses, bed and breakfasts, or other buildings where rooms are furnished for a consideration, but does not include hospitals, sanitariums or nursing homes. The consideration paid for the room, for purposes of the Enabling Act, includes the cost of the room only if the room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such room not related to the cleaning and readying of such room for occupancy. To be subject to the Township HOT, the occupant's use, possession or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. Certain housing facilities owned or leased and operated by an institution of higher education are excluded. Hotels and other eligible vendors of sleeping accommodations are required to collect the Township HOT at the time room charges are received from patrons.

Other Hotel Occupancy Taxes. Other provisions of the Texas Tax Code authorize the State, counties, cities, and other political subdivisions meeting certain specified qualifications to impose hotel occupancy taxes similar to the Township's HOT. Currently, in addition to the Township's HOT, hotels in the Township are subject to a 6% hotel occupancy tax imposed by the State of Texas on all short-term (30 days or less) room rentals costing $2 or more per day. The Woodlands Township Economic Development Zone does not currently impose a HOT. Thus, hotels in the Township are subject to a combined HOT rate of 13%.

Collection and Administration. The Township is authorized to collect and administer hotel occupancy taxes levied by the Township on hotels operating within its boundaries. The HOT is generally collected at the point of sale by the hotel, and is then remitted by the hotel to the Township on a monthly basis. The HOT collected by hotels in the Township is due and payable to the Township by the twentieth day of the calendar month following the required collection, with no retainage by the hotel for the costs of collection. Concurrent with the remission of HOT to the Township, the hotel must file with the Township a written tax report in a form prescribed by the Township, along with a copy of the hotel's state hotel occupancy tax report submitted for the same reporting period. If the required HOT is not paid in full when due, a penalty may be imposed in the amount of 5% of the unpaid tax, subject to an additional 5% penalty if the taxes are not paid within thirty days of the due date. In addition, delinquent taxes and accrued penalties accrue interest at a rate of 10% per annum, beginning sixty days after the date on which the tax was due. The Township has the right to inspect the books and records of hotels within the Township to determine the accuracy of HOT payments. In addition to other legal remedies available to the Township, the Township may file suit to collect any unpaid HOT or may sue to enjoin a delinquent hotel taxpayer from operating a hotel in the Township until its HOT is paid in full.

HISTORICAL PLEDGED REVENUES

Schedule 1 -- Historical Sales Tax and Hotel Occupancy Tax Collections

The Sales Tax is received by the Township from the Comptroller two months after the period of collection from the taxpayers. As required by GASB 33, Township collections shown on this schedule are adjusted and represent sales tax dollars paid by taxpayers for the tax year. This schedule does not represent actual Sales Tax receipts by the Township during the tax year. The Township began imposing the Sales Tax in October, 1994, with the first collections received in December, 1994. Only fifty percent (50%) of the proceeds of the Sales Tax actually received by the Township at the current rate of 1% is pledged to the payment of the Bonds.

The Hotel Occupancy Tax revenues are received by the Township in the month after the period of collection from taxpayers. As required by GASB 33, Township collections shown on this schedule are adjusted and represent sales tax dollars paid by taxpayers for the tax year. The Township began collecting Hotel Occupancy Taxes in September, 1997, with the first collection received in October, 1997. This schedule does not represent actual Hotel Occupancy Tax receipts by the Township during the tax year.

PLEDGED REVENUES

Fiscal Year	Total Sales Tax (1%)	Pledged Sales Tax (1/2 of 1%)	Hotel Occupancy Tax	Total Pledged Revenues
2002	$ 7,303,621	$ 3,651,811	$ 1,446,148	$ 5,097,959
2003	7,254,683	3,627,342	1,803,198	5,430,540
2004	8,317,222	4,158,611	2,279,445	6,438,056
2005	9,171,856	4,585,928	2,568,060	7,153,988
2006	10,543,800	5,271,900	3,273,005	8,544,905
2007	11,874,400	5,937,200	3,758,367	9,695,567
2008 (1)	12,445,818	6,222,909	3,876,988	10,099,897

(1)Figure represents partial year (eleven months) collections through November 30, 2008.

MAJOR SOURCES OF SALES TAX AND HOTEL OCCUPANCY TAX REVENUES IN THE TOWNSHIP

Sources of Sales Tax and Hotel Occupancy Tax revenues within the Township and the EDZ are collected within the following categories:

Mall Includes total retail square footage of 1,332,854 and includes major anchor department stores, retail stores, kiosks, carts, and a food court merchant located at 1201 Lake Woodlands Drive inside The Woodlands Mall, and includes newly constructed stores and restaurants on the southside of the Mall.

Town Center Includes retail stores, restaurants, hotels, construction, and other business taxpayers with a physical presence in the general Town Center area bounded on the east by I-45, on the south by The Woodlands Parkway, on the west by Grogans Mill Road and on the north by Lake Woodlands Drive. The Woodlands Resort and Conference Center is located at 2301 North Millbend.

College Park Includes retail stores, hotels, and restaurants located in the College Park Shopping Center at the northwest intersection of State Highway 242 and I-45.

Pinecroft I Includes retail stores and restaurants located in the Pinecroft I Shopping Center generally bounded on the east by I-45, on the south by Lake Woodlands Drive, on the west by Pinecroft Drive and on the north by Lake Front Circle.

Pinecroft II Includes retail stores and restaurants located in the Pinecroft II Shopping Center generally bounded on the east by Pinecroft Drive, on the south by Lake Woodlands Drive, on the west by Six Pines Drive and on the north by Lake Front Circle.

Market Street A 34 acre project which encompasses 480,000 square feet of mixed retail and office space which includes retail stores, restaurants, and business tenants in the newly constructed area west of The Woodlands Mall and north of the 17,000 seat Cynthia Woods Mitchell Pavilion. This retail center is generally bounded on the east by Six Pines Drive, on the south by Lake Robbins Drive, on the west by Grogan's Mill, and on the north by Lake Woodlands Drive.

Research Forest Includes restaurants and retail establishments located in an area west of I-45 along Research Forest Drive.

Village Centers Includes the retail outlets throughout the expanded boundaries of the Township. In total there are seven Village Centers; Panther Creek, Grogran’s Mill, Alden Bridge, Indian Springs, Sterling Ridge, College Park, and Cochran’s Crossing.

Other Includes taxpayers not located in the above referenced categories and also taxable purchases made within the Township that is remitted by taxpayers with no physical location in The Woodlands Township.

Schedule 2 - Major Retail Establishments in the Township

Listed below are several of the major retail establishments located within the Township. The list was compiled by estimating the largest retailers' square footages by visual inspection, and is not based on the amount of actual sales revenue or sales tax generated, since such information is deemed confidential and protected by State law. Retailers are listed in alphabetical order.

Barnes & Noble Booksellers	Marshall's (Marmaxx Operating Corp.)
Bed, Bath & Beyond	Office Max
Best Buy	Randall's
Borders	Ross for Less
Circuit City	Sear Roebuck & Co.
Dillard's	Target
Donoho's Jewellers	Tinseltown Movies 17 (CNMK Texas Properties)
H-E-B Food Store	Toys R Us
JC Penney	Ulta
Kroger	Wal-Mart
Lowe's	Walgreens
Macy's	

Schedule 3 - Top Sales Tax Sources

The following schedule demonstrates the dependence of the Township upon its largest sales tax generators.

Class of Sales Tax Payers	Percentage of Total Township Sales Tax As of 11/30/08
Largest Sales Tax Payer	Less than 5.00%
Top 5 Sales Tax Payers	14.62%
Top 10 Sales Tax Payers	23.14%

Schedule 4 - Hotels in the Township

The Township levies a Hotel Occupancy Tax of 7%. Revenues from the Township’s Hotel Occupancy Tax are generated by hotels and motels located within the Township, which are listed below.

Hotel	Rooms (approx.)
Woodlands Waterway Marriott	341
Woodlands Resort & Conference Center	440
Drury Inn	151
Courtyard by Marriott	90
Hilton Garden Inn	117
Residence Inn-Lake Front Circle	90
Residence Inn 2-Six Pines Drive	96
Fairfield Inn	83
Best Western(1)	63
TOTAL	1,471

(1) Best Western is within the newly expanded boundaries of the Township and began collecting the 7% local Hotel Occupancy Tax on December 1, 2007.

DEBT SERVICE AND COVERAGE

Schedule 5 – Pro Forma Debt Service Schedule

Fiscal Year Ending (12/31)	Existing Debt Service	The Bonds[1] Principal	Interest	Total	Total Debt Service
2009	$3,752,850	$ -	$ 437,812	$ 437,812	$4,190,662
2010	3,750,084	670,000	741,953	1,411,953	5,162,037
2011	3,752,613	685,000	728,365	1,413,365	5,165,978
2012	3,752,663	705,000	710,285	1,415,285	5,167,948
2013	3,750,263	725,000	690,436	1,415,436	5,165,699
2014	3,752,638	745,000	668,930	1,413,930	5,166,568
2015	3,754,375	765,000	645,515	1,410,515	5,164,890
2016	3,750,338	795,000	619,760	1,414,760	5,165,098
2017	3,753,766	820,000	591,485	1,411,485	5,165,251
2018	3,754,031	850,000	560,363	1,410,363	5,164,394
2019	3,752,125	885,000	526,079	1,411,079	5,163,204
2020	3,749,256	925,000	488,039	1,413,039	5,162,295
2021	3,750,622	965,000	445,725	1,410,725	5,161,347
2022	3,749,941	1,015,000	399,424	1,414,424	5,164,364
2023	3,751,828	1,065,000	349,225	1,414,225	5,166,053
2024	3,753,819	1,120,000	295,133	1,415,133	5,168,951
2025	3,750,425	1,175,000	237,170	1,412,170	5,162,595
2026	3,752,975	1,240,000	174,968	1,414,968	5,167,943
2027	3,750,944	1,305,000	108,145	1,413,145	5,164,089
2028		1,375,000	36,781	1,411,781	1,411,781
	$ 71,285,553	$ 17,830,000	$ 9,455,591	$ 27,285,591	$ 98,571,144

[1] Interest on the Bonds is estimated at market rates for the purpose of illustration. Preliminary, subject to change.

Schedule 6 – Debt Service Coverage Analysis

Pledged Revenues[1]	Coverage with Actual Revenue
HOT - FYE 2007 Actual	$ 3,721,379 [3]
1/2% Sales Tax - FYE 2007 Actual	5,816,360 [3]
	$ 9,537,739
Maximum Annual Debt Service[2]	$ 5,168,951
Coverage	1.85x
Average Annual Debt Service[2]	$ 4,928,557
Coverage	1.94x

[1] As provided by the Township
[2] Includes the Outstanding Bonds and the estimated debt service on the Bonds.
[3] Unlike Schedule 1, coverage is calculated based on actual Sales Tax and Hotel Occupancy Tax revenue received by the Township during the fiscal year.

MANAGEMENT AND OPERATION OF THE TOWNSHIP

Schedule 7 - Budgeting and Operations

The Township's combined statement of revenues, expenditures and changes in fund balances for Fiscal Years 2004 through November 30, 2008, are summarized below.

	YTD through November 30,	Fiscal Year Ending December 31,			
Revenues	2008[1]	2007	2006	2005	2004
Sales Tax					
General Fund	$ 12,445,818	$ 11,874,400	$ 10,543,800	$ 9,171,856	$ 8,317,222
Special Reserve Fund[2]	9,921,231	2,348,105	1,459,073	1,165,019	772,431
Hotel Occupancy Tax	3,876,988	3,758,367	3,273,005	2,568,060	2,279,445
Marketing and Public Affairs	246,380	455,121	388,894	378,143	364,110
Investment Earnings	864,366	1,476,516	1,197,060	614,609	422,541
Miscellaneous	6,306	11,497	11,651	60,137	39,538
Total Revenues	27,361,089	19,924,006	16,873,483	13,957,824	12,195,287
Expenditures					
Current:					
Security Enhancements	3,903,274	4,148,784	3,816,703	3,983,156	3,588,614
Fire Protection Services	8,633,665				
Marketing and Public Affairs	2,017,119	2,221,997	1,583,192	1,484,804	1,393,670
Economic Development	310,941	684,582	350,586	506,998	198,637
Operations and Maintenance	1,085,629	628,084	266,611	196,333	233,233
General and Administrative	3,085,171	2,227,315	1,673,320	1,550,496	1,325,701
Capital Outlay	3,214,947	5,730,929	5,689,332	2,513,673	565,352
Debt Service:					
Principal	1,378,145	1,332,957	1,260,415	1,279,919	1,220,374
Interest and Fiscal Charges	3,376,518	2,849,216	2,723,343	2,565,149	2,627,819
Total Expenditures	27,005,408	19,823,864	17,363,502	14,080,528	11,153,400
Revenues over (under) Expenditures	355,681	100,142	(490,019)	(122,704)	1,041,887
Other Financing Sources/(Uses)					
Transfer In/(Out)	-	-	-	-	-
Developer Contributions	4,821,038		2,505,000	-	-
Proceeds from Capital Leases	-	43,019	14,873	300,000	-
Note Proceeds	16,440,000	-	-	-	-
Regional Participation Deposits	(16,440,000)	-	-	-	-
Total Other	4,821,038	43,019	2,519,873	300,000	-
Fund Balances - Beginning	21,242,351	21,099,190	19,069,336	18,892,040	17,850,153
Fund Balances - Ending	$ 26,419,070	$ 21,242,351	$ 21,099,190	$ 19,069,336	$ 18,892,040

Source: The Woodlands Township, Audited Financial Statements

(1) Unaudited

(2) Includes Sales Tax revenues for the Township EDZ which are not pledged to the repayment of the Bonds.

Investments

The Township is a governmental agency, body politic and corporate and political subdivision of the State of Texas and is subject to the provisions of the Public Funds Investment Act (Texas Government Code, Chapter 2256) with respect to the investment of its funds. The Township invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Directors of the Township. Both State law and the Township's investment policies are subject to change.

Schedule 8 - Invested Funds

As of November 30, 2008, the Township's invested funds were invested in the following categories:

Description		Market Value	Percent of Total
Certificate of Deposit[(1)]	$	4,325,877	23.12%
TexPool[(2)]		8,128,183	43.45%
Cash Account		6,254,176	33.43%
	$	18,708,236	100.00%

(1) All funds are fully collateralized and/or insured.

(2) TexPool is a local government investment pool under the control of the Texas Comptroller of Public Accounts. TexPool currently maintains an AAA rating from Standard & Poor's. The pool's investment objectives include achieving a stable net asset value of $1.00 per share. Daily investment or redemption of funds is allowed by the participants. Includes Sales Tax revenues for the Township EDZ which are not pledged to the repayment of the Bonds.

LITIGATION

The Township will furnish the Underwriters a certificate, dated as of the date of delivery of the Bonds, executed by both the Chairman and Secretary of the Board of Directors of the Township, acting in their official capacities, to the effect that no litigation of any nature is then pending or threatened against the Township, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution, or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the Township or the title of the then present officers and directors of the Board.

LEGAL MATTERS

Legal Opinions

The Township will furnish the Underwriters a transcript of certain certified proceedings had incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are issued in accordance with law and are valid and binding obligations of the Township, and the approving legal opinion of Schwartz, Page & Harding, L.L.P., Bond Counsel, to the effect that, based upon examination of such transcript, the Bonds are valid and legally binding obligations of the Township under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Township. The legal opinion of Bond Counsel will further state that the Bonds are payable as to principal and interest solely from the Pledged Revenues. Bond Counsel will also furnish its legal opinion to the effect that interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law. Bond Counsel's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

Bond Counsel's opinion will also address the matters described below under "Tax Exemption."

A specimen copy of the opinion of Bond Counsel in connection with the Bonds is attached hereto as Appendix "C".

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "DESCRIPTION OF THE BONDS," "THE WOODLANDS TOWNSHIP--General," "SECURITY FOR THE BONDS," "LEGAL MATTERS" and Appendix C hereto – "Summary of Selected Provisions of the Bond Resolution", solely to determine whether such information fairly summarizes the procedures and documents referred to therein and is in accordance with applicable state law with regard to the sale of the Bonds. Bond Counsel has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the Township for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

The Federal Income Tax Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the sue of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Township file an information report with the Internal Revenue Service. The Township has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Township with respect to matters solely within the knowledge of the Township, which Bond Counsel ahs not independently verified. If the Township should fail to comply with the covenants in the Bond Resolution, or if foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the even causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation (other than an "S" corporation, regulated investment company, a REIT, or a REMIC), if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. A corporation's alternative minimum taxable income will be based on its "adjusted current earnings". Because interest on tax-exempt obligations, such as Bonds, is included in a corporation's "adjusted current earnings", ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, reflected as interest on the Bonds, received or accrued during this year.

Bond Counsel's opinion will state that the Bonds are not "private activity bonds" under the Code. Therefore, except as described above in the discussion regarding the book-income item for corporations, interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations.

Except as stated above and in paragraphs below entitled "Qualified Tax-Exempt Obligations", Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership, receipt of interest on or disposition of the Bonds.

The law upon which Bond Counsel has based their opinion is subject to change by the Congress, administrative interpretation by the Department of Treasury and subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, certain Subchapter "S" Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. In addition, certain foreign corporations doing business in the United States may be subject to a "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest, such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof. In such event, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Under existing law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in general, that no deduction is allowed for interest expense incurred or continued by a taxpayer to acquire or carry tax-exempt obligations. In addition to this general disallowance, section 265(b) of the Code provides a specific complete disallowance of the pro rata interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code also provides an exception to this complete disallowance for interest expense allocable to tax-exempt obligations (other than private activity bonds) that are designated by an issuer, such as the Township, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000.

The Township has not designated the Bonds as “qualified tax-exempt obligations”.

RATINGS

The Outstanding Bonds of the Township have been affirmed at “A3” by Moody's and “A+” by S&P, without regard to credit enhancement. Applications for ratings on the Bonds have been made to Moody's and S&P. The ratings reflect only the respective views of such organizations, and the Township makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Township in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Township and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

Edward Jones, Citigroup Global Markets, and Merrill Lynch have agreed to purchase the Bonds from the Township pursuant to a bond purchase agreement with the Township for a price of $__________ (representing the par amount of the Bonds, plus a net reoffering premium of $__________, and less an Underwriters' discount of $__________). The Underwriters' obligation is to purchase all of the Bonds if any are purchased.

CONTINUING DISCLOSURE

In the Bond Resolution, the Township has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Township is required to observe the agreement for so long as it remains obligated to pay the Bonds. Under the agreement, the Township will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The Township will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Township of the general type included in this Official Statement under Schedules 1 through 8 and in Appendix A. The Township will update and provide this information within six months after the end of each fiscal year. The Township will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Township may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the Township commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the Township will provide unaudited financial information and operating data which is customarily prepared by the Township by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the Township may be required to employ from time to time pursuant to state law or regulation.

The Township's current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless the Township changes its fiscal year. If the Township changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The Township will also provide timely notices of certain events to any SID and to either each nationally recognized municipal securities information repository ("NRMSIR") or the Municipal Securities Rulemaking Board ("MSRB"). The Township will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the Township will provide timely notice of any failure by the Township to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

The Township has agreed to provide the foregoing updated information only to the information vendors described above. Prior to July 1, 2009, the information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so. Effective July 1, 2009, all such information must be filed with the MSRB, rather than the current NRMSIRs. The MSRB intends to make the information available to the public without charge through an internet portal.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas as a SID and has received a no-action letter from the SEC dated August 29, 1995 that recognizes the MAC as a SID. The address of the MAC is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. Any filing under this agreement may be made solely by transmitting such filing to the MAC as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letters to the MAC dated September 7, 2004 and October 3, 2007. In addition, the Township intends (but is not obligated to) file such information with the Electronic Municipal Market (EMMA) being established by the Municipal Securities Rulemaking Board, to the extent permitted thereby.

Limitations and Amendments

The Township has agreed to update information and to provide notices of material events only as described above. The Township has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The Township makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Township disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the Township to comply with its agreement.

The Township may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the Township, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Township (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Township may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the Township so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the Township has complied in all material respects with all continuing disclosure agreements made by the Township in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

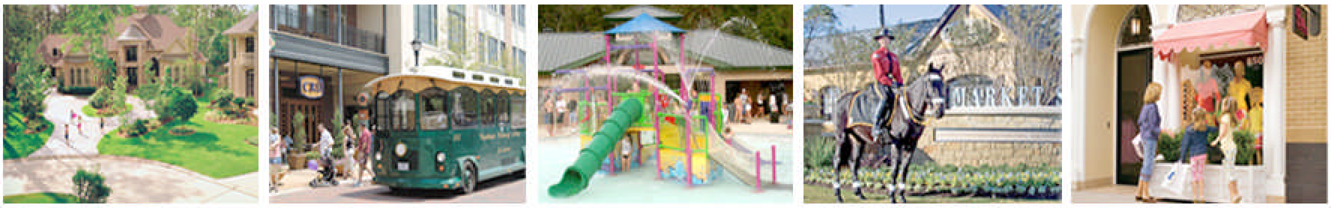
This Official Statement was approved by the Board of Directors of The Woodlands Township, as of the date shown on the cover page.

/s/____
Chairman, Board of Directors
The Woodlands Township

ATTEST:

/s/____
Secretary, Board of Directors
The Woodlands Township

APPENDIX A
THE WOODLANDS TOWNSHIP AUDITED FINANCIAL STATEMENTS



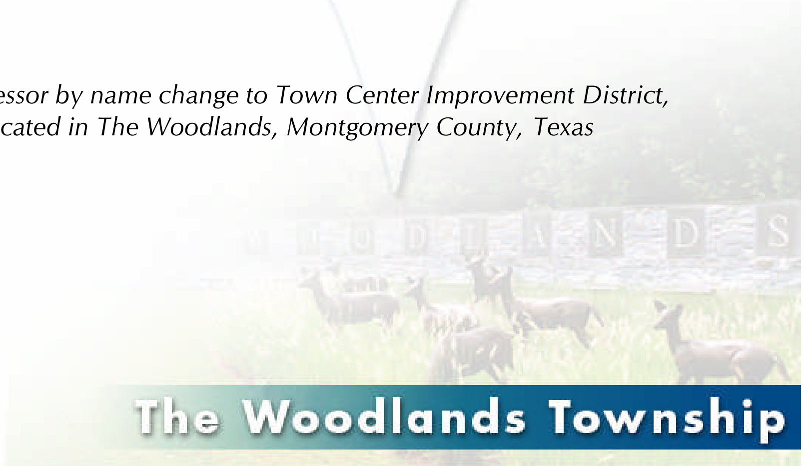
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2007

Prepared by:
Finance & Administration Department

The Woodlands Township is successor by name change to Town Center Improvement District, a special purpose district located in The Woodlands, Montgomery County, Texas

www.thewoodlandstownship-tx.gov



MANAGEMENT'S DISCUSSION & ANALYSIS

As management of The Woodlands Township (the "Township"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2007.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. The Township has only governmental activities in these statements.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. Other factors that are not included in the financial statements, such as an increase in our retail tax base or an expansion of the Township's boundaries, should be considered in evaluating the condition of the Township's overall financial position.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected sales tax).

The government-wide financial statements can be found on pages 37-38 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. As of December 31, 2007, all funds of the Township were considered governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Projects Fund, the Debt Service Fund, and the Special Revenue Fund, all of which are considered to be major funds. In addition, The Woodlands Convention & Visitor's Bureau is presented as an Other Governmental, non-major fund for 2007. The Special Revenue Fund is comprised of four individual funds for which separate data is provided in the form of project statements following the notes to the financial statements in this report.

The Township adopts an annual financial plan for the General Fund which includes funding for The Woodlands Convention & Visitors Bureau through an operating transfer from the General Fund. The financial plan is reviewed by management and the Township's Executive Committee monthly and used in monitoring Township operations throughout the year. Final actual operating results for the year for all funds are considered by the Board as the annual financial plan.

The basic governmental fund financial statements can be found on pages 39-42 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-71 of this report.

Other Supplementary Information

The project statements referred to earlier in connection with the Special Revenue Fund are presented immediately following the notes to the financial statements and can be found on pages 74-75 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, net assets were a negative $9.6 million as of December 31, 2007. The principal reason for the deficit is that the Township has retained all debt associated with building the leased Convention Center and did not record the historical cost associated with the leased Convention Center in accordance with capital lease accounting requirements of generally accepted accounting principles. The Township incurred this long-term debt in 2001 when the bonds were issued. Developer contributions of land and park improvements have since offset this deficit and increased capital assets.

At year end, the Township had total assets of approximately $55.2 million. Of this amount, approximately $18.7 million consisted of cash and investments, approximately $3.7 million represented current receivables, $18.2 million represented long-term receivables and deposits of illiquid assets, and $14.6 million represented capital assets net of $1.1 million in accumulated depreciation. The remaining balance of the assets consists of various prepaid expenses. Total liabilities were approximately $64.8 million as of year end. Of this amount, approximately $47.1 million consisted of debt and accrued interest associated with our outstanding bonds, of which $2.2 million is payable within the next year, $16.3 million represents contractual obligations to other governments due within the next year, and the remaining $1.4 million consists of accounts payable, accrued expenses, and capital leases for office equipment. A schedule of net assets, at December 31, 2007, follows:

THE WOODLANDS TOWNSHIP
SCHEDULE OF NET ASSETS
DECEMBER 31, 2007

	Governmental Activities			
	2007		**2006**	
Current and other assets	$ 22,432,173	*41%*	$ 21,609,186	*64%*
Long-term receivables and deposits	18,199,221	*33%*	1,879,976	*6%*
Capital assets	14,567,897	*26%*	10,346,178	*31%*
Total Assets	**55,199,291**	*100%*	**33,835,340**	*100%*
Current and other liabilities	19,837,005	*36%*	2,807,640	*8%*
Long-term liabilities outstanding	45,010,149	*82%*	46,360,000	*137%*
Total Liabilities	**64,847,154**	*117%*	**49,167,640**	*145%*
Net Assets				
Invested in capital assets, net of related debt	10,977,452	*20%*	6,675,173	*20%*
Restricted	4,623,629	*8%*	4,437,813	*13%*
Unrestricted	(25,248,944)	*-46%*	(26,445,286)	*-78%*
Total Net Assets	**$ (9,647,863)**	*-17%*	**$ (15,332,300)**	*-45%*

Common-size ratios presented as a percentage of total assets

The $5.7 million change in total net assets, from $(15.3) million in 2006 to $(9.6) million in 2007 relates to a $4.2 million increase in capital assets for Waterway Square construction, an $823 thousand increase in cash balances on-hand, and a reduction in liabilities of $640 thousand. As a result, for the fiscal year ended December 31, 2007 the Township's overall financial position has improved as the deficit in total net assets has decreased. Management continues to monitor short-term working capital needs as it considers various funding sources for the regional participation agreement deposits of $16.3 million which are due by November 2008. A schedule of the changes in net assets, at December 31, 2007, is presented on the following page.

THE WOODLANDS TOWNSHIP
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Governmental Activities			
	2007		**2006**	
Revenues				
General Revenues				
Sales taxes	$ 14,222,505	*72%*	$ 12,002,873	*63%*
Hotel occupancy taxes	3,758,367	*19%*	3,273,005	*17%*
Unrestricted investment earnings	1,070,997	*5%*	973,171	*5%*
Miscellaneous income	10,743	*0%*	10,935	*0%*
Program Revenues				
Marketing and public affairs	455,121	*2%*	388,894	*2%*
Operations and maintenance	109,654	*1%*	-	*0%*
Capital contributions	-	*0%*	2,505,000	*13%*
Total Revenues	**19,627,386**	*100%*	**19,153,878**	*100%*
Expenses				
General Expenses				
General and administrative	3,724,658	*19%*	2,860,142	*15%*
Interest on long-term debt	2,425,408	*12%*	2,480,262	*13%*
Program Expenses				
Security enhancements	4,149,065	*21%*	3,816,320	*20%*
Marketing and public affairs	2,222,446	*11%*	1,584,088	*8%*
Economic development	684,582	*3%*	350,586	*2%*
Operations and maintenance	736,789	*4%*	266,677	*1%*
Total Expenses	**13,942,948**	*71%*	**11,358,075**	*59%*
Increase in Net Assets	5,684,438	*29%*	7,795,803	*41%*
Net Assets - Beginning	(15,332,300)	*-78%*	(23,128,103)	*-121%*
Net Assets - Ending	**$ (9,647,863)**	*-49%*	**$ (15,332,300)**	*-80%*

Common-size ratios presented as a percentage of total revenues

Governmental Funds Financial Analysis

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements.

Governmental Funds

The focus of the Township's governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported a combined ending fund balance of approximately $21.2 million, representing an increase of 0.7% over the prior year. The minimal change is a result of increased tax revenues in the current year replacing developer contributions of $2.5 million, a non-recurring source of revenue from the prior year. Current year tax revenues increased 17.7% to adequately provide for expanded program costs, capital projects, and debt service requirements. Revenue increases are a result of construction sales tax, corporate sales tax, favorable sales tax audit adjustments from the State, incremental tax revenues from the new economic development zone project no. 4, and a strong local economy for retail sales and hospitality services.

Approximately $6.2 million of the $21.2 million total constitutes unreserved, undesignated fund balances. Of that amount, $12.8 million in the General Fund is available for spending at the government's discretion, and a negative $6.6 million in the Special Revenue Fund represents future incremental sales tax revenue collections for the repayment of Town Green Park and Waterway Square construction costs to the General Fund. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to fund 1) authorized projects of approximately $2.3 million; 2) debt service of approximately $4.6 million; or, 3) it represents long-term receivables of $8.1 million.

2007	2006	Nature
$12.8 million	$10.0 million	Available for spending
($6.6) million	($3.5) million	Future incremental sales tax pledges
$2.3 million	$6.5 million	Authorized projects and capital reserves
$4.6 million	$4.4 million	Debt service
$8.1 million	$3.7 million	Long-term receivables
$21.2 million	**$21.1 million**	**Total fund balances**

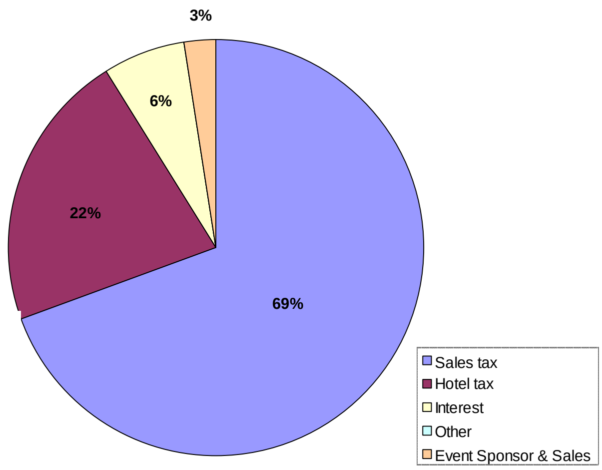
General Fund

The General Fund is the chief operating fund of the Township. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the Township's General Fund increased by approximately $7.2 million during the current fiscal year. Total revenues of $17.3 million increased $2.1 million or 13.9% while expenditures of $10 million increased $2.8 million or 28.6% from the prior year. See Note 12 for additional information on transfers in and out of the General Fund.

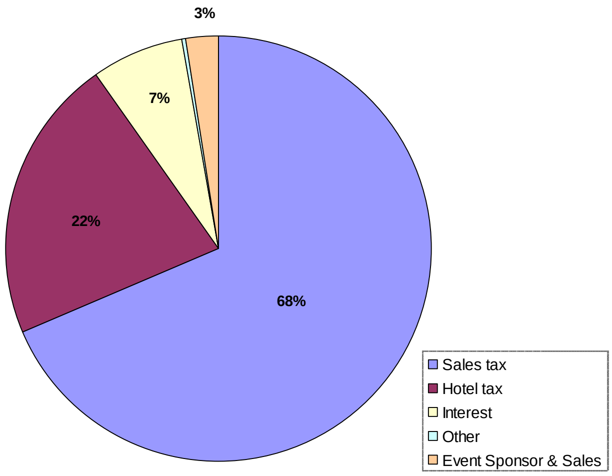
As illustrated below, General Fund revenue components have remained relatively fixed as a percentage of total General Fund revenue for the year. The Township experienced similar sales tax increases to those of other local governments. In addition, the Township benefited from construction and non-retail corporate sales tax along with favorable audit collections from the State.

Expanded program areas and transition costs continue to drive an increase in expenditures. General & Administrative expenditures increased due to additional legal, legislative, and consulting services required to conduct public hearings, postings, and hold community-wide elections. Public safety increases allowed for increased visibility and a public safety presence in newly constructed pedestrian-friendly areas as well as additional traffic enforcement programs. Marketing and public affairs encompasses all public events, public affairs, and promotion of the area in an effort to stimulate local tax revenues. In 2007, the expanded destination marketing campaign showcased local shopping and amenities; and a new event, iWOW—International Winter on The Waterway, was produced to attract visitors for the holiday season. In economic development, a one-time incentive grant of $250,000 was awarded to Memorial-Hermann Hospital for the Life Flight program serving Montgomery County. Operations & maintenance experienced the largest program expenditure growth due to park maintenance, trolley transportation, and participation in the I-45 Beautification program; all of these were new services provided in 2007.

2006 GENERAL FUND REVENUE



2007 GENERAL FUND REVENUE



Capital Projects Fund

The designated fund balance in the Capital Projects Fund of $1.4 million decreased $3.9 million during the current fiscal year. This decrease primarily relates to transfers out for Waterway Square construction, see Interfund Transfer detail in Note 12. Additional information on this fund and project balances can also be found in Notes 9 and 11.

Debt Service Fund

The Debt Service Fund has a total fund balance of approximately $4.6 million, all of which is reserved for the payment of debt service. Net transfers in of $3.7 million from the General Fund represent hotel occupancy tax collections used for the payment of bonded debt related to the leased convention center.

Special Revenue Fund

For the current fiscal year, the Special Revenue Fund includes all Economic Development Zone ("Zone") activity. The decrease in fund balance and the resulting deficit is primarily due to the $4.3 million Waterway Square liability in the current year and the $3.7 million Town Green Park liability assumed by the Zone in the prior year. Offsetting these liabilities is the Zone's cash balance of $2 million, representing sales tax revenue collections to date which will be utilized in 2008 to reduce the principal on the Waterway Square project and the construction of the new fire station and training facilities. The Zone's liabilities will be repaid from future incremental sales tax revenue collections generated by the Zone in accordance with the approved financing plans for each project. Cash balances for each project are typically distributed throughout the year in accordance with each project's financing plan as approved by the Board.

Other Governmental Funds

Still in its organizational stages of development in 2007, The Woodlands Convention and Visitor's Bureau (TWCVB) is considered a blended component unit of The Township and its financial information is presented as an Other Governmental Fund. Currently, TWCVB's sole source of funding is operating transfers from the Township's General Fund. See Note 1 for more information on component unit determination.

Debt Administration

At the end of the current fiscal year, the Township had total debt outstanding of approximately $46.4 million. Additional information on the Township's long-term debt can be found in Note 16.

In the wake of recent reviews by rating agencies, the Township has filed material event notices in respect to its insured and underlying bond ratings for Moody's and Standard & Poor's. The outstanding bonds of the Township were insured by Financial Guaranty Insurance Company (FGIC) who has experienced recent downgrades by both rating agencies. The latest rating actions as of this report date are included in the chart below:

Rating Agency	Underlying (SPUR)	Rating Action	Insured	Rating Action
Moody's	Baa2	June 6, 2001	Baa2	March 31, 2008
Standard & Poor's	A-/Stable	March 28, 2008	A-/Stable	March 28, 2008

Economic Factors

At this time, the Township is primarily funded by a 1% sales and use tax which was approved by voters on November 2, 1993. Furthermore, an additional 1% incremental sales and use tax, the maximum allowable, was levied community-wide for The Woodlands Township Economic Development Zone on November 16, 2007; however, due to taxpayer canvassing requirements the collection of this tax commences April 1, 2008.

A majority of 2007 sales tax revenues were derived from the 8 million square feet of retail, hospitality, and general commercial space within The Woodlands including The Woodlands Mall, Market Street retail, the 5-screen movie theater at Market Street, the 17,000-seat Cynthia Woods Mitchell Pavilion, a 17-screen movie theater located near The Woodlands Mall, and other surrounding retail establishments in the Township.

In addition, The Woodlands Township Economic Development Zone assesses an additional 1% incremental sales tax for specific projects and community services benefiting the area by enhancing economic health and vitality of the Township, promoting the public health, safety and welfare within the Township, and by stimulating economic growth and activity within the Township. The chart below provides a quick overview of each economic development project or service funded by the Zone:

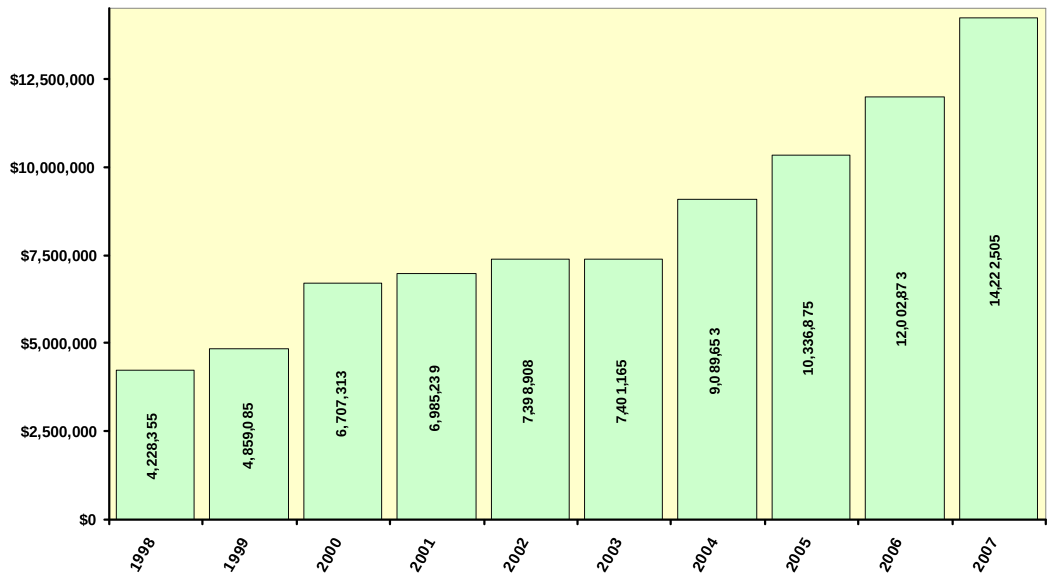
Partner	Projects/Service	Amount
Cynthia Woods Mitchell Pavilion	Pavilion expansion	$1.35 million
General Growth Properties	Mall expansion	$7.5 million
Kimco Woodlands, LP	Market Steet	$10.6 million
The Woodlands Fire Department	Fire station and training facility	$11.6 million
The Woodlands Township	Town Green Park	$4.3 million
The Woodlands Township	Waterway Square	$4.3 million
The Woodlands Township	Fire and community services	TBD annually

Retail

The Woodlands Mall, Waterway Square District, Market Street, and surrounding retail establishments and restaurants are synonymous with shopping, dining and entertainment. Given the Township's proximity to Bush Intercontinental Airport and the Houston metropolitan area, in addition to the amenities and entertainment venues offered within the community, a recent economic impact study conducted by Cunningham Research Group determined that business and leisure travelers and visitors generate a substantial amount of local sales tax revenues. The study found 78% of the shoppers in The Woodlands Town Center are coming from outside The Woodlands.

SALES TAX COLLECTIONS

10 year historical trend



Residential and non-residential construction continues in the area with tenant build-outs in The Woodlands Mall and along The Waterway. Retail and restaurant tenants include, among others: HEB The Woodlands Market, Tommy Bahama, Borders Books and Music, the Cheesecake Factory, P.F.

Chang's China Bistro, Fleming's Steakhouse, Grotto, Jasper's, The Goose's Acre, Baker St. Pub & Grill, and Americas. Overall sales tax collected for 2007 was up $2.2 million or 18.5%.

Construction continues on seven new office/retail buildings offering over 800,000 square feet of mixed use retail and office space near The Waterway within the Township. Additional residential and retail development continues along The Woodlands Waterway®, a 1.25-mile linear park and transportation corridor located within the downtown of the Township.

Hotels

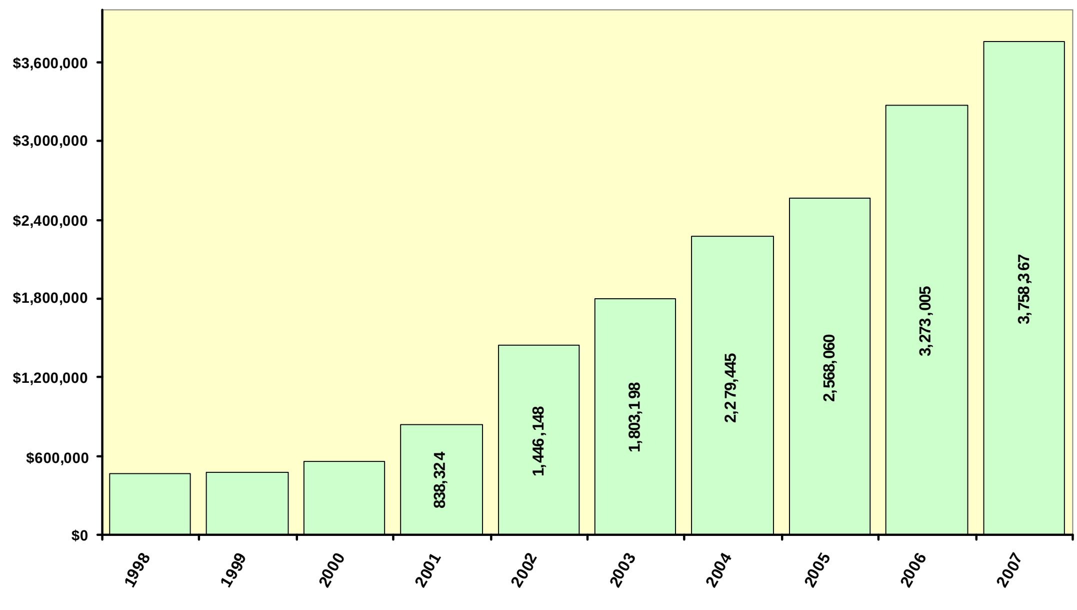
Effective September 1, 1997, following the amendment of the Township Act by Senate Bill 26, the Township began the assessment of a hotel occupancy tax of 7% of the price paid for a hotel room. There are now nine first quality, full service hotels offering more than 1,400 rooms for guests within the Township. Construction of a new boutique hotel is planned for the Market Street development and the major renovation of an existing hotel will add approximately 168 new rooms in 2009. In addition, plans are underway for the construction of a hotel in The Waterway Square District of The Woodlands Township.

Total room revenue for hotels located in the Township increased 15.8% over the prior year. Furthermore, the occupancy rate increased by 2.4% to approximately 76% and the RevPAR (revenue per available room) increased approximately $15.10 to an average rate of $110.91. As a result, hotel occupancy tax revenue increased $485 thousand or 14.8% in 2007 over prior year.

The Woodlands Waterway Marriott Hotel and the Township built Convention Center continue to experience success and look for this momentum to continue into 2008 and beyond. The hotel continues to rank in the top 10% of the chain for overall guest satisfaction. Achieving the AAA four diamond rating, The Woodlands Waterway Marriott Hotel and Convention Center has become a primary location for convention and group business in the region.

HOTEL TAX COLLECTIONS

10 year historical trend



Property Tax

In the November 16, 2007 confirmation election, voters authorized the Township to assess, levy and collect an annual ad valorem tax. Pending the resolution of certain legislative issues regarding tax abatements in the next regular session, the Township will levy an ad valorem tax in 2009 for the 2010 fiscal year. Preliminary estimates of assessed property values are projected at $11 billion. The average 2007 home value for Montgomery County was $164,813, while the tax base in The Woodlands includes over 30,000 residential units and 24 million square feet of commercial square footage. In accordance with the Transition Agreement, sales tax and property tax revenues would fund fire protection and emergency services along with other community services for the Township.

Capital Assets

In 2007, construction continued on Waterway Square, a one acre public plaza with unique water features, water falls, and interactive fountains surrounded by office buildings, shops, and restaurants along The Woodlands Waterway®. The project is a joint endeavor funded by The Woodlands Development Company, The Woodlands Township, and the Town Center Owners Association. Total project costs including construction, land, design, and development are estimated at $8.7 million with a grand opening scheduled for April 2008. As of December 31, 2007, the Township had capitalized $4.3 million for the project as construction in progress. Upon completion, a reimbursement agreement will be executed between the Township and the Zone for the repayment of $4.3 million in project costs. A receivable has been established in the General Fund with a corresponding liability recorded by the Zone to account for the repayment of costs associated with this project. The repayment will be funded from collections of the incremental one percent sales tax within the Zone in accordance with the Board approved financing plan. This interfund activity has been removed from the government-wide financials.

In addition, during the year the Township's Board of Directors: 1) approved a new directional sign replacement project, 2) the expansion of storage space at the Township-owned Convention Center was completed, and 3) work continued on the communications network infrastructure for The Waterway camera system and wireless internet connectivity for general public use in certain common areas along The Waterway.

As of December 31, 2007, the Township had $432,011 in capital reserves for the replacement of existing capital assets.

Transition Assets

The Transition Agreement, executed in February 2008, outlines the provisions and timeline to consolidate the governmental functions of the Township with those provided by the POAs and their related service companies. In connection therewith, a "Deed, Bill of Sale, Assignment, Acceptance and Assumption" agreement was executed in February 2008, to convey certain financial and non-financial assets, liabilities, and functions from the POAs to fiduciary service companies and to the Township, as provided in the Transition Agreement. Transferable capital assets net of accumulated depreciation and excluding any related debt is currently estimated between $75 million to $95 million.

Requests for Information

This financial report provides a general overview of the Township's finances for all those with an interest in The Woodlands Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 10001 Woodloch Forest Dr., Suite 600, The Woodlands, Texas 77380.

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BASIC FINANCIAL STATEMENTS

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THE WOODLANDS TOWNSHIP
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	18,704,720
Receivables		5,564,440
Prepaid expenses		42,234
Deposits on regional participation projects		16,320,000
Capital assets not being depreciated:		
Construction in progress		4,431,511
Sculpture and art		133,286
Land		2,585,714
Capital assets, net of $1,067,625 in accumulated depreciation:		
Parks		4,205,587
Pavilion parking garage		2,789,086
Vehicles, furniture and equipment		243,500
Signage		130,418
Leasehold improvements		48,795
Total Assets		**55,199,291**
LIABILITIES		
Accrued expenses		1,342,035
Accrued interest payable		795,599
Capital leases - due within one year		14,372
Bonds - due within one year		1,365,000
Contractual obligations - due within one year		16,320,000
Noncurrent liabilities:		
Bonds - due in more than one year		44,995,000
Capital leases - due in more than one year		15,149
Total Liabilities		**64,847,154**
NET ASSETS		
Invested in capital assets, net of related debt		10,977,452
Restricted for debt service		4,623,629
Unrestricted		(25,248,944)
Total Net Assets	**$**	**(9,647,863)**

See Notes to Financial Statements.

THE WOODLANDS TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenue: Operating Contributions	Program Revenue: Capital Contributions	Net (Expense)/ Revenue and Changes in Net Assets: Total Governmental Activities
Governmental activities				
Security enhancements	$ 4,149,065	$ -	$ -	(4,149,065)
Marketing and public affairs	2,222,446	455,121	-	(1,767,325)
Economic development	684,582	-	-	(684,582)
Operations and maintenance	736,789	109,654	-	(627,135)
General and administrative	3,724,658	-	-	(3,724,658)
Interest on long-term debt	2,425,408	-	-	(2,425,408)
Total governmental activities	**$ 13,942,948**	**$ 564,775**	**$ -**	**(13,378,173)**

General Revenues:	
Taxes:	
Sales taxes	14,222,505
Hotel occupancy taxes	3,758,367
Unrestricted investment earnings	1,070,997
Miscellaneous	10,743
Total General Revenues	**19,062,611**
Change in Net Assets	5,684,438
Net Assets - Beginning	(15,332,300)
Net Assets - Ending	**$ (9,647,863)**

See Notes to Financial Statements.

THE WOODLANDS TOWNSHIP
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Capital Projects	Debt Service	Special Revenue	Other Governmental	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 12,101,374	$ -	$ 4,587,634	$ 2,008,309	$ 7,403	$ 18,704,720
Sales tax receivable	2,758,683	-	-	516,597	-	3,275,280
Hotel occupancy tax receivable	240,745	-	-	-	-	240,745
Other receivables	133,199	-	35,995	-	-	169,194
Due from other funds	176,226	1,433,704	-	-	-	1,609,930
Prepaid expenditures	41,634	-	-	-	600	42,234
Town Green Park receivable	3,791,465	-	-	-	-	3,791,465
Waterway Square receivable	4,343,164	-	-	-	-	4,343,164
Total Assets	**$ 23,586,491**	**$ 1,433,704**	**$ 4,623,629**	**$ 2,524,906**	**$ 8,003**	**$ 32,176,733**
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	$ 1,433,704	$ -	$ -	$ 170,694	$ 5,532	$ 1,609,930
Other accrued expenditures	1,182,178	-	-	5,174	2,471	1,189,823
Town Green Park liability	-	-	-	3,791,465	-	3,791,465
Waterway Square liability	-	-	-	4,343,164	-	4,343,164
Total Liabilities	**2,615,882**	**-**	**-**	**8,310,497**	**8,003**	**10,934,382**
Fund balances:						
Reserved for:						
Debt service	-	-	4,623,629	-	-	4,623,629
Long-term receivables	8,134,629	-	-	-	-	8,134,629
Unreserved, designated - reported in:						
Capital Projects	-	1,433,704	-	-	-	1,433,704
Special Revenue Fund	-	-	-	848,902	-	848,902
Unreserved, undesignated - reported in:						
General Fund	12,835,980	-	-	-	-	12,835,980
Special Revenue Fund	-	-	-	(6,634,493)	-	(6,634,493)
Total Fund Balances	**20,970,609**	**1,433,704**	**4,623,629**	**(5,785,591)**	**-**	**21,242,351**
Total Liabilities and Fund Balances	**$ 23,586,491**	**$ 1,433,704**	**$ 4,623,629**	**$ 2,524,905**	**$ 8,003**	**$ 32,176,733**

See Notes to Financial Statements.

THE WOODLANDS TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Total fund balance, governmental funds	$	21,242,351
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		14,567,897
Deposits on regional participation projects are restricted and reserved solely for use on mutally agreeable capital projects. Capital outlay and related expenditures will be recognized as incurred over time.		16,320,000
Convention center lease receivable is not available to pay current period expenditures and is, therefore, not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Assets.		1,879,221
Contractual obligations are liabilities due within one year in accordance with the regional participation agreements with each city, and will be funded by other long-term financing sources.		(16,320,000)
Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets. These are as follows:		
Bonds payable		(46,360,000)
Capital lease payable		(29,521)
Accrued interest payable - bonds		(795,599)
Accrued rent on office space		(137,579)
Compensated absences		(14,633)
Net Assets of Governmental Activities in the Statement of Net Assets	$	(9,647,863)

See Notes to Financial Statements.

THE WOODLANDS TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Capital Projects	Debt Service	Special Revenue	Other Governmental	Total Governmental Funds
REVENUES						
Sales tax	$ 11,874,400	$ -	$ -	$ 2,348,105	$ -	$ 14,222,505
Hotel occupancy tax	3,758,367	-	-	-	-	3,758,367
Investment earnings	1,192,002	-	216,098	68,416	-	1,476,516
Marketing and public affairs	455,121	-	-	-	-	455,121
Miscellaneous	11,497	-	-	-	-	11,497
Total Revenues	17,291,386	-	216,098	2,416,521	-	19,924,005
EXPENDITURES						
Current:						
Security enhancements	4,148,784	-	-	-	-	4,148,784
Marketing and public affairs	2,209,028	-	-	-	12,969	2,221,997
Economic development	684,582	-	-	-	-	684,582
Operations and maintenance	628,084	-	-	-	-	628,084
General and administrative	2,221,127	-	-	6,157	31	2,227,315
Capital outlay	52,682	324,421	-	5,353,826	-	5,730,929
Debt Service:						
Principal	22,957	-	1,310,000	-	-	1,332,957
Interest and fiscal charges	2,036	-	2,441,661	405,519	-	2,849,216
Total Expenditures	9,969,279	324,421	3,751,661	5,765,502	13,000	19,823,863
Excess/(deficiency) of revenues over/(under) expenditures	**7,322,107**	**(324,421)**	**(3,535,563)**	**(3,348,981)**	**(13,000)**	**100,142**
OTHER FINANCING SOURCES/(USES)						
Transfers in/(out)	(150,513)	(3,583,866)	3,721,379	-	13,000	-
Proceeds from Capital Leases	43,019	-	-	-	-	43,019
Total Other Financing Sources/(Uses)	(107,494)	(3,583,866)	3,721,379	-	13,000	43,019
Net Change in Fund Balances	**7,214,613**	**(3,908,287)**	**185,816**	**(3,348,981)**	**-**	**143,161**
Fund Balances - Beginning of Year	13,755,996	5,341,991	4,437,813	(2,436,610)	-	21,099,190
Fund Balances - End of Year	**$ 20,970,609**	**$ 1,433,704**	**$ 4,623,629**	**$ (5,785,591)**	**$ -**	**$ 21,242,351**

See Notes to Financial Statements.

THE WOODLANDS TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances, total governmental funds	$ 143,161
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Net Assets capitalizes certain assets where the cost is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital asset additions	4,540,958
Depreciation expense	(319,239)
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenue is reported in the Statement of Activities when earned.	
Capital lease receivable	(754)
Governmental funds report the repayment of bond principal as an expenditure and bond proceeds as current financial resources. In contrast, the issuance of debt and repayments are reported on the Statement of Net Assets as as a liability and a reduction of the long-term liability, respectively. This is the amount by which proceeds exceeded repayments, issuance costs and deferred amounts:	
Principal repayment - bonds	1,310,000
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the Statement of Net Assets.	
Proceeds from capital leases	(43,019)
Principal repayment - capital leases	22,957
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These are as follows:	
Accrued rent not reflected in governmental funds	9,143
Compensated absences	2,943
Accrued interest - bonds	18,288
Change in net assets of governmental activities	$ 5,684,438

See Notes to Financial Statements.

THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Woodlands Township conform with generally accepted accounting principles. The following is a summary of the most significant policies.

A. Reporting Entity

As an independent political subdivision of the State of Texas, the Township is considered a primary government for financial reporting purposes; its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the Township's financial reporting entity. These statements include of The Woodlands Township, successor by name change to Town Center Improvement District (the primary government) and its component units, entities for which the Township is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data for these units would be combined with the data of the Township.

The Woodlands Township Economic Development Zone and The Woodlands Convention and Visitor's Bureau have been included in the Township's financial reporting entity as blended component units.

During the transition period, management will continually assess the potential for inclusion in the Township's financial reporting entity any property owners association or community service corporations. Such inclusion will be based on changes in each entity's Board governance and financial accountability criteria. Considerations regarding the potential for inclusion of other entities, organizations or functions in the Township's financial reporting entity are based on criteria prescribed by accounting principles generally accepted within the United States of America. These same criteria are evaluated in considering whether the Township is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Township's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the Township's reporting entity evaluation, other prescribed criteria under accounting principles generally accepted within the United States of America include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

For 2007, the Township's primary activities included managing and financing improvement projects and services benefiting the Town Center area. These activities include security enhancements and business promotions for the Town Center and surrounding areas as well as general and administrative services. For fiscal years following the November 2007 confirmation election expanding the boundaries of the Township, activities will also include community-wide public safety protection with the eventual consolidation of community services, maintenance, and capital projects for the unincorporated area of Montgomery and Harris counties within the Township.

The Township is economically dependent on sales and use taxes and hotel occupancy taxes. A significant downturn in retail sales and/or hotel occupancy tax could impact the Township's ability to meet operating expenses.

Blended Component Units

Created in November 2007, The Woodlands Township Economic Development Zone (the "Zone") is the successor organization to Town Center Economic Development Zone Nos. 1, 2, 3, and 4. The Zone facilitates continuing improvement projects for community fire protection services and economic development projects which further the public purpose of the promotion and stimulation of business, commercial, and economic activity in the Township and the State of Texas. The members of The Woodlands Township Economic Development Zone governing board are appointed by the Board of The Woodlands Township and are composed of the Board of The Woodlands Township. The foregoing financial statements include the consolidated Zone activity for each approved project. See Note 13 for additional information on Zone projects and financing arrangements. Supplementary project statements immediately follow the notes to the financial statements.

In March of 2006, the creation of The Woodlands Convention and Visitors Bureau (TWCVB), a 501(c)6 organization was approved by the Township's Board of Directors. Through December 31, 2007, the entity continued its organizational development and received all of its funding through operating transfers from the Township's General Fund. TWCVB's membership is open to three classes (A, B, and C) each with equal voting rights. Members are elected by the Board of Directors of The Woodlands Township or invited by the TWCVB's Board. Currently, The Woodlands Township is the only member of TWCVB. Annually, the membership elects the TWCVB's Board of Directors. As of December 31, 2007, TWCVB's seven member Board was composed of four Township Directors and three community business leaders. The foregoing financial statements include this entity as a blended component unit in the Other Governmental Fund.

Separately issued audited financial statements are not issued for the component units. Unaudited financial statements may be obtained, by written request, from the Township's accounting department.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information about the Township as a whole. For the most part, the effect of interfund activity has been removed from these statements. The governmental activities are supported primarily by tax revenues, and the Township has no business-type activities that rely, to a significant extent, on fees and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: 1) sponsorships or charges/fees to customers or applicants, who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and liabilities associated with the operations of these activities are included on the Statement of Net Assets.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include sales and use tax and hotel occupancy tax. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the government-wide presentation.

The Township reports the following major governmental funds:

The ***General Fund*** is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The ***Capital Projects Fund*** is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction projects and other capital asset acquisitions.

The ***Debt Service Fund*** accounts for the resources accumulated and payments made for principal and interest on the bonded debt of the Township. The primary source of revenue for debt service is hotel occupancy tax and one-half of collected sales and use tax.

The ***Special Revenue Fund*** is used to account for the proceeds from specific revenue sources that are designated for special purposes. The Special Revenue Fund includes approved projects funded through The Woodlands Township Economic Development Zone. The Zone was established to further the promotion and stimulation of business, commercial and economic activity in the Zone as well as the Township.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Annual Financial Plan (Non-Appropriated Budget)

The Township does not adopt annual appropriated budgets for its funds. The Board of Directors, however, does adopt annual financial plans for the General Fund. The plans are reviewed by management and the Board throughout the year in controlling and enhancing the Township's operating results. The Board generally considers the Township's final annual actual operating results for all funds representative of the Township's annual financial plans for that year. Encumbrance accounting is not used.

E. Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, balances in privately managed public funds investment pools ("TexPool") and sweep accounts.

F. Investments

The Township's cash and investments are reported at fair value based on quoted market prices at year end.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method of accounting.

H. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the appropriate fund and as assets in the government-wide financial statements to the extent the Township's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. All assets (donated and purchased) are recorded at cost or at the estimated fair value at the date of acquisition or donation. Capital assets and improvements are capitalized as constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at the government-wide level. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available.

At this time, the Township does not own or maintain infrastructure assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. The Township capitalizes additions/transfers of sound system equipment, computer equipment, and wayfinding signs as systems, regardless of each individual component's value in relation to the capitalization threshold. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and the resulting gain or loss is included in the results of operations.

The Township's Board of Directors has adopted a capitalization policy for reporting capital assets which exceed $5,000 in cost and have a useful life greater than one year. The straight-line method of depreciation is applied over the following estimated useful life for the type of assets. A table of useful lives follows:

Asset Description	Estimated Useful Life
Office Equipment	5 to 10 years
Vehicles	5 to 15 years
Tenant Improvements	Lease term
Buildings & Garages	20 to 40 years
Machinery & Equipment	5 to 20 years
Signage & Visual Improvements	7 to 20 years
Parks - Land Improvements	20 to 30 years
Infrastructure	20 to 50 years
Land	n/a
Construction in Progress	n/a

From time to time, the Township has accepted donations of public art, sculptures, and mosaics which are maintained for public enjoyment and not held for resale. These are considered non-depreciable assets.

I. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Interfund Transactions

Interfund Receivables and Payables

During the course of routine operations, transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Transactions Between Funds

Transactions between funds that would be treated as revenues and expenditures if they involved organizations external to the Township are accounted for as revenues, and expenditures in the applicable funds.

Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly attributable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of the expenditures in the fund that is reimbursed. Other legally authorized transfers are treated as operating or residual equity transfers and are included in the results of operations of the governmental funds.

K. Compensated Absences

Annual vacation and sick time are granted to regular full-time employees. The Township maintains a policy allowing employees to be compensated for unused vacation time upon leaving the employment of the Township. However, any unused vacation time lapses at the end of each fiscal year, unless exception to this policy is approved in writing by the President of the Township. Employees are allowed to carry over unused sick time from one fiscal year to the next, up to a maximum of 90 days. However, all accrued and earned sick leave is forfeited upon leaving the employment of the Township. At December 31, 2007, the Township recorded compensated absences of $14,633 in accrued liabilities on the government-wide financial statements.

L. Fund Equity

Reserved equity balances represent those portions of fund balance not appropriable for expenditures, represent long-term receivables, or are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated fund balances represent available balances for the Township's future use.

None of the government-wide net assets are restricted by enabling legislation.

NOTE 2 – DEFICIT FUND EQUITY

The Special Revenue Fund has a deficit fund balance of $5.8 million as of December 31, 2007. In accordance with the project and financing plans adopted by the Board of The Woodlands Township Economic Development Zone, this deficit relates specifically to the cost of construction for Town Green Park and Waterway Square. The Township financed the construction of the projects and will receive repayments from future incremental sales tax revenue collections generated by the Zone. The capital outlay expenditures and related interfund liability to the General Fund are recorded in the Special Revenue Fund. The combined project plans for these two projects allow for the repayment of up to $8.6 million in approved project costs of which $8.0 million has been expended.

The related General Fund receivable and interest income, and Special Revenue Fund liability and interest expense for Town Green Park and Waterway Square expenditures are recorded in the fund financial statements only. The related interfund activity has been eliminated from the government-wide financials.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Township's cash and investments are reported at fair value. The Township's cash and investment accounts are classified as either cash and cash equivalents or investments. The cash and cash equivalents include cash on hand, demand deposits with financial institutions, money market mutual funds, certificates of deposit, and short-term investments in private-managed public funds investment pool accounts such as TexPool, and sweep accounts.

Deposits and Custodial Credit Risk

State statutes require that all the Township's deposits in financial institutions be fully collateralized by depository insurance or by U.S. government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. Furthermore, the Township's internal written investment policy further restricts the value of such collateral to not less than 110% of the principal amount of the uninsured deposit. As of December 31, 2007, of the total bank balances for the Township and each blended component unit including certificates of deposits, the Federal Depository Insurance Corporation (FDIC) covered the first $100,000. The remaining balances were properly collateralized in accordance with State requirements.

Sweep Account

The Township's operating account balance is swept daily into an AIM liquid assets investment fund which seeks to provide as high a level of current income as is consistent with the preservation of capital and liquidity. The fund seeks to preserve a daily net asset value of $1.00 per share. Credit risk is not considered for AIM investments because they are not evidenced by securities that exist in physical or book entry form. AIM Advisors, Inc. serves as the fund's investment advisor and is responsible for its day-to-day management. The fund maintains a weighted average maturity of 90 days or less and invests in compliance with Rule 2a7 under the Investment Company Act of 1940, as amended and is an authorized investment under Section 2256.016 of the Public Funds Investment Act.

THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

TexPool

The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, the Texas Local Government Investment Pool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

As of December 31, 2007 the Township had deposits and investments with the following maturities and credit quality:

	Fair Value	Maturity in Years	Credit Risk
Certificates of Deposit	$4,116,182	0.31	Unrated
TexPool	$7,709,863	-	AAAm
AIM Sweep	$1,213,707	-	AAAm
Flex Repurchase Agmt	$1,913,183	19.18	A+

All other cash and cash equivalents balances are held in checking or money market accounts as noted below.

Interest Rate Risk

In accordance with its investment policy, the Township manages its exposure to any decline in fair values by limiting the maturity of each investment to a period no longer than ninety (90) days. Additional authorization is required for periods exceeding ninety (90) days; however, in no event shall the maturity of any individual investment owned by the Township exceed two (2) years, unless otherwise specifically stated in the investment policy.

Credit Risk

In accordance with State law, the Township's investment policy restricts investments to authorized instruments with stated maturities (if any). As of December 31, 2007, checking and time deposits at Woodforest National Bank (a privately-held bank) and Amegy Bank (Moody's rated A2) represented 20% of the Township's cash balances. Certificates of deposit held at Texas Community Bank (a privately-held bank) represented 22%; while TexPool (S&P rated, AAAm) and AIM investments (S&P, rated AAAm) represented 41% and 7%, respectfully. Additionally, the Township's debt service reserve, which is restricted by the terms of the Bond Resolution, represents approximately 10% of the Township's cash balances and is held by Bayerische Hypo-und Vereins Bank AG, rated A-1 by S&P.

NOTE 4 - HOTEL OCCUPANCY TAX

The Township Act (as amended by Senate Bill 26) provides for the assessment of a hotel occupancy tax of up to 7% of the price paid for a hotel room. By Board order, the Township has imposed the maximum 7% tax, effective September 1, 1997 (for fiscal period 1997-98 and thereafter). As provided by the Township Act, the Township can apply the proceeds from a hotel occupancy tax for any of the Township's purposes and for purposes described by Section 352.1015, Tax Code, to the extent considered appropriate by the Board. Generally, proceeds are used for the costs related to advertising and promoting tourism and costs related to business development and commerce, including financing and operating improvement projects for conventions, trade shows and similar events. The Township collected $3,758,367 from the levy of this tax for the fiscal year ended December 31, 2007.

NOTE 5 - SALES AND USE TAX

On November 2, 1993, the voters of the Township authorized the Township's Board of Directors to levy and collect a one percent sales and use tax within the Township, subject to the applicable provisions of the Texas Tax Code. The Township relies on this tax for the funding of substantially all of its programs, functions and services.

On November 6, 2007, the voters of the Township authorized the Township's Board of Directors to expand the boundaries of the Township in which collection of the base one percent sales and use tax will commence April 1, 2008 following a canvassing of taxpayers.

In addition, following a public hearing on November 16, 2007, the existing economic development zones were reorganized as The Woodlands Township Economic Development Zone. At that time, the Zone's Board imposed an incremental one percent sales and use tax within the boundaries of the expanded Township, but by order dated March 26, 2008, the Board of the Zone temporarily excluded the Harris County area from its boundaries. There are currently no identifiable retail sales taxpayers in the excluded area. Collections of the incremental sales and use tax will be used exclusively to satisfy funding obligations under the Transition Agreement and other improvement projects as approved by the Board.

The Township collected $11,874,400 in the General Fund from the levy of this sales and use tax for the fiscal year ended December 31, 2007.

NOTE 6 – AD VALOREM TAX

On November 6, 2007, the voters of the Township authorized the Township Board of Directors to assess, levy, and collect an annual ad valorem tax on a uniform basis upon all taxable property included within its expanded boundaries. In accordance with the Transition Agreement, a property tax will be assessed no earlier than the Fall of 2009 for fiscal period and budget year 2010. The future levy of an ad valorem tax will trigger the transfer and subsequent assumption by the Township of certain assets, liabilities, and functions currently owned and/or provided by the POAs and the fiduciary service companies.

THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 – GRANT REVENUE

The Houston-Galveston Area Council, HGAC, awarded The Woodlands Township an intergovernmental contract of $388,800 ($194,400 federal; $194,400 local match) for the period June 1, 2007 through May 31, 2008 to provide certain transit services. If the contract is extended, the program could receive up to $583,200 in federal congestion mitigation and air quality (CMAQ) funding over a three year period. For 2007, $109,654 in operating contributions for grant funding is recorded as program revenue under the operations and maintenance program on the Statement of Activities.

The Woodlands Township has since contracted with Brazos Transit District to provide transportation services as required by the grant at a rate of $62.34 per vehicle hour. Each month Brazos provides an invoice for actual service hours, and reimbursement is sought from HGAC thereafter. The Township has retained The Goodman Corporation as a transportation consultant and advisor on grant reporting and compliance issues as required by federal funding organizations.

NOTE 8 - CAPITAL ASSETS

A summary of changes in capital assets, for the year ended December 31, 2007, follows:

Governmental Activities	Balance Beginning of Year	Additions	Retirements/ Transfers	Balance End of Year
Nondepreciable Assets:				
Construction in Progress	$ 9,000	$ 4,422,511	$ -	$ 4,431,511
Sculpture & Art	133,286	-	-	133,286
Land	2,585,714	-	-	2,585,714
Total Nondepreciable Assets	$ 2,728,000	$ 4,422,511	$ -	$ 7,150,511
Depreciable Assets:				
Parks	$ 4,313,400	$ 41,064	$ -	$ 4,354,464
Pavilion Parking Garage	3,100,813	-	-	3,100,813
Vehicles, Furniture & Equipment	449,924	77,383	(10,782)	516,525
Signage	433,197	-	-	433,197
Leasehold improvements	80,011	-	-	80,011
Total Depreciable Assets	$ 8,377,345	$ 118,447	$ (10,782)	$ 8,485,010
Total Assets	$ 11,105,345	$ 4,540,958	$ (10,782)	$ 15,635,522
Less Accumulated Depreciation for:				
Parks	$ 21,268	$ 127,609	$ -	$ 148,877
Pavilion Parking Garage	233,447	78,280	-	311,727
Vehicles, Furniture & Equipment	212,846	70,961	(10,782)	273,025
Signage	268,391	34,387	-	302,779
Leasehold improvements	23,215	8,001	-	31,216
Total Accumulated Depreciation	759,168	319,239	(10,782)	1,067,625
Capital Assets, net of depreciation	$ 10,346,177	$ 4,221,719	$ -	$ 14,567,897

Depreciation expense of $319,239 for the year was charged to general and administrative expenses in the Township's governmental activities.

NOTE 9 – CAPITAL PROJECTS & COMMITMENTS

As of December 31, 2007 the Township had the following commitments:

Project	Amount Authorized	Spent-to-date	Remaining Commitment
Town Green Park	$ 4,336,823	$ (3,733,648)	$ 603,175
Waterway Square	4,343,164	(4,343,164)	-
Waterway Camera System	355,000	(20,271)	334,729
Convention Center Expansion	130,000	(130,000)	-
Wayfinding Signs	275,000	(50,531)	224,469
Total Outstanding	**$ 9,439,987**	**$ (8,277,614)**	**$ 1,162,373**

In addition to these projects, the Township Board approved a $100,000 commitment to the Greater Houston Partnership Opportunity Houston program. This contribution is payable over a five year period with annual contributions of $20,000 each. Payments for this program began in 2007.

Town Green Park

Since the grand opening of Town Green Park on April 1, 2006, additional projects continue to be identified which enhance the long-term utility and operation of the park, including electrical circuitry and park furnishings. From the original $4.3 million in approved project costs, $603,175 remains available for future spending.

Waterway Square

In September 2006, the Township executed a development agreement with The Woodlands Land Development Company for the construction of a one-acre public plaza centrally located within the downtown district of the Township. While total project costs are estimated at $8.7 million, the Township's contribution for the project will not exceed $4.3 million. As of December 31, 2007, construction continued on the project with completion expected in April 2008.

Waterway Camera System

In December 2006, the Township's Board of Directors approved the execution of a service agreement with WaveMedia to provide a system of cameras and wireless internet connectivity along The Woodlands Waterway® with the purpose of enhancing public safety measures currently provided by the Township. As of December 31, 2007, transfers to the Capital Projects Fund in the amount of $355,000 had been approved of which $20,271 in consulting and project start-up costs have been spent-to-date.

Convention Center Expansion

In December 2006, under the Convention Center Project Lease with The Woodlands Hotel L.P. (lessee) the Township's Board of Director's approved a transfer to the Capital Projects Fund for the lessee's request for reimbursement of construction costs not to exceed $130,000 related to a permanent storage facility addition to the Convention Center.

Wayfinding Sign Project

In June 2007, the Township's Board of Directors approved a new directional wayfinding sign replacement project in the amount of $275,000 of which $50,531 was spent in 2007. The updated sign system will distinguish Town Center from the rest of the Township by directing residents and visitors to new and existing destinations and amenities in the area.

NOTE 10 – ACCOUNTS RECEIVABLE

Government-wide receivable balances, disaggregated by type are presented below. As of December 31, 2007, the financial statements do not report an allowance for uncollectible accounts.

Receivable	Primary	Component Unit	Total
Sales tax	2,758,683	516,597	3,275,280
Hotel occupancy tax	240,745	-	240,745
Lease	1,879,221	-	1,879,221
Event	68,544	-	68,544
Grant	55,241	-	55,241
Interest	42,132	-	42,132
Vendor	2,739	-	2,739
Employees	538	-	538
Total receivables	**5,047,843**	**516,597**	**5,564,440**

NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES

The outstanding balances between funds result mainly from each project's time lag between the period in which funds are designated and the period in which projects are completed. All balances are subject to collection in the subsequent year.

As of December 31, 2007, interfund balances due from the General Fund and due to the Capital Projects Fund include:

Projects	Balance
Waterway Camera System	334,729
Wayfinding Signs	224,469
Fire Department Equipment	150,000
Office Equipment & Furnishings	88,333
Patrol Vehicles	77,805
I-45 Beautification Project Phase II	73,694
Waterway Square - Furnishings	41,772
Ambassador Equipment	10,892
	$ 1,001,694
Capital Reserves	
Town Green Park	104,443
Waterway Square	100,000
Signage	80,000
Waterway	68,000
Fountains	50,000
Town Center Garage	29,568
	$ 432,011
Total	**$ 1,433,704**

Additional interfund balances as of December 31, 2007 include the following:

Due from	Due to	Description	Balance
Special Rev Fund	General Fund	Waterway Square - accrued interest	170,694
Other Govt Fund	General Fund	Cash advance and admin items	5,532
		Total	**$ 176,226**

NOTE 12 – INTERFUND TRANSFERS

As of December 31, 2007, interfund transfers included:

Transfer out:	Transfer in: General Fund	Capital Projects	Debt Service	Special Revenue	Other Govt	Total
General Fund	$ -	$ 822,959	$ 4,456,743	$ -	$ 13,000	$ 5,292,702
Capital Projects Fund	63,661	-	-	4,343,164	-	4,406,825
Debt Service Fund	735,364	-	-	-	-	735,364
Special Revenue Fund	4,343,164	-	-	-	-	4,343,164
Total	$ 5,142,189	$ 822,959	$ 4,456,743	$ 4,343,164	$ 13,000	$ 14,778,055
Transfers in	$ 5,142,189	$ 822,959	$ 4,456,743	$ 4,343,164	$ 13,000	$ 14,778,055
Transfer out	5,292,702	4,406,825	735,364	4,343,164	-	14,778,055
Transfers in/(out)	$ (150,513)	$ (3,583,866)	$ 3,721,379	$ -	$ 13,000	$ -

Transfers from the General Fund to the Capital Projects Fund of $823 thousand include Board approved transfers for: capital reserves ($561,959); and the wayfinding sign project ($261,000).

Transfers from the General Fund to the Debt Service Fund of $4.4 million include $3.7 million in hotel occupancy tax and $.7 million in pledged sales tax used to service debt in accordance with the Bond Resolution. The latter of which was subsequently refunded to the General Fund from excess hotel occupancy tax collections above and beyond that needed for debt service requirements for the year.

Transfers from the General Fund to Other Governmental Funds of $13,000 were for destination marketing and promotional activities of The Woodlands Convention and Visitor's Bureau.

Transfers from the Capital Projects Fund of $63,661 relate to the continued partnership with the City of Oak Ridge North for participation in the I-45 Beautification Project.

Transfers from the Special Revenue Fund to the General Fund of $4.3 million represent the amount of construction draw payments made by the Township for Waterway Square construction during 2007.

NOTE 13 – ECONOMIC DEVELOPMENT ZONE PROJECTS

Created in November 2007 by resolution of The Woodlands Township Board of Directors, The Woodlands Township Economic Development Zone's (the "Zone") boundaries overlie the expanded boundaries of the Township within Montgomery County in its entirety. In accordance with HB 4109, as passed by the 80th Texas Legislature amending the Township's enabling legislation, upon creation of the Zone the existing development zones were dissolved and abolished and all assets, properties, indebtedness, obligations, and liabilities were transferred to and were assumed by the newly created Zone.

By agreement, the Township and the Zone have agreed that 1) the Zone will pay over to the Township all net proceeds derived from the collection of a one percent sales and use tax within the Zone, 2) all amounts received from the Zone by the Township will be applied solely for the improvement projects as described below, and 3) in consideration of the payments between entities, the Township will make staff available and provide administrative support at no cost to the Zone.

As noted, future sales tax revenue collections for The Woodlands Township Economic Development Zone have been committed for specific projects. All Zone activity for the year is included in the Special Revenue Fund of the financial statements. The terms and obligations of repayment to third-party developers (net revenue payments) and the Township (priority payments) for each project are outlined below.

A. *Economic Development Project No. 1*

Approved in September of 2000, project costs include the redevelopment, rehabilitation, expansion and enlargement of The Cynthia Woods Mitchell Pavilion by the Center for the Performing Arts at The Woodlands.

In accordance with the approved financing plan, a one-percent incremental sales tax collected within the entertainment venue, along with any interest earnings, are allocated to the payment of project costs as identified in the project plan until: 1) October 1, 2020; or 2) the aggregate amount of payments for project costs equals $1,350,000, whichever occurs first.

Payments to the Cynthia Woods Mitchell Pavilion are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2007, aggregate net revenue payments excluding a one-time capital grant of $250,000, were $714,669.

B. *Economic Development Project No. 2*

Approved in November of 2002, project costs include public enhancements to the mixed-use development located at Market Street within the boundaries of Township and the development of Town Green Park. Approved reimbursable public enhancement costs of $10,600,000 for the Market Street project include, among other items, improvements to parking facilities, public art and architectural elements, public restrooms, and public plazas. Approved project costs for Town Green Park were $4,336,823.

The approved financing plan has a term effective for fiscal year 2005 and not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax collected within the boundaries of the project, along with any interest earnings, are allocated to the payment of project costs as identified in the financing plan as follows: 1) the first $200,000 of annual collections are reimbursed to the Township as a priority payment and applied to Town Green project costs, not to exceed $4,336,823, plus interest; and 2) annual collections in excess of the priority payment are reimbursed to the Market Street developer and applied to public enhancement costs, not to exceed $10,600,000, plus interest. During the 24^{th} annual period or fiscal year 2028, the Township's priority payment for subsequent annual periods will be recalculated to fully amortize the outstanding unpaid project costs for the Town Green Park project, and then to the remaining unamortized balance for the Market Street project.

Payments to the Market Street developer are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2007, aggregate net revenue payments including interest to the developer were $1,842,668 and priority payments to the Township were $400,000.

C. *Economic Development Project No. 3*

Approved in July of 2003 and amended in October of 2004, project costs include public enhancements to the mixed-use development located at The Woodlands Mall expansion within the boundaries of the Township and a portion of the development costs of Waterway Square. Approved reimbursable public enhancement costs of $7,499,111 for the Mall Expansion project include, among other items, costs for utility relocations, landscaping, signage, paving and sidewalks, lighting improvements, and related engineering, surveying, and other soft costs. Approved project costs for the Waterway Square project were $4,343,164.

The approved financing plan has a term effective for fiscal year 2004 and not to exceed thirty years, or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax collected within the boundaries of the project, along with any interest earnings, are to be used to pay project costs identified in the financing plan as follows: 1) the first $350,000 of annual collections are reimbursed to the Township as a priority payment and applied to Waterway Square project costs, not to exceed $4,343,164, plus interest; and 2) annual collections in excess of the priority payment are reimbursed to the developer of the Mall Expansion project and applied to public enhancement costs, not to exceed $7,499,111 plus interest.

Payments to the Mall Expansion developer are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2007, aggregate net revenue payments including interest to the developer were $598,483 and priority payments of $1,350,110 were due to the Township pending the execution of a reimbursement agreement for the Waterway Square project.

D. *Economic Development Project No. 4*

Approved in December of 2006, project costs include construction of a new fire station and state-of-the-art training center in the College Park service area of the Township by The Woodlands Fire Department.

The assessed one-percent incremental sales tax in the College Park service area along with any interest earnings, are to be used to pay project costs identified in the financing plan until: 1) December 27, 2026; or 2) the aggregate amount of payments applied to project costs equals $11,670,000 plus interest, whichever occurs first.

Payments to The Woodlands Fire Department are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2007, no interest or net revenue payments have been made to The Woodlands Fire Department.

E. *Community Fire Protection and Public Services*

Beginning fiscal year 2008, a portion of the sales and use tax collections from within the Zone, after allowance for the projects noted above, will be used annually for community fire protection and other public services in accordance with the Sales Tax Funding Agreement between the Zone and the Township, the Transition Agreement, and the interim funding agreement by and among the Township, the POAs and their related service companies, and The Woodlands Fire Department. The amount to be funded in 2008 is $6.1 million.

NOTE 14 – GOVERNANCE TRANSITION

A. Legislative Amendments

During 2007, two key legislative bills which established the foundation for eventual self-governance of The Woodlands were passed by the regular session of the 80th Texas legislature, as follows:

- House Bill (HB) 4109 – Amended the Township's enabling legislation providing the framework to reorganize the Township's existing governing Board, and to expand its boundaries and taxing jurisdiction;
- Senate Bill (SB) 1012 – Provided the framework for regional participation agreements and incentives for municipalities adjacent to The Woodlands to indefinitely defer annexation.

B. Confirmation Election

Following the successful passage of the legislative amendments noted above, the Township conducted a public hearing in August, 2007 for the proposed addition of territory to its boundaries. In addition, a confirmation election was called for and held on November 6, 2007, which included the following propositions, all of which subsequently passed by a majority vote: 1) adding territory to the boundaries; 2) reorganization of the Board of Directors; and 3) authorization for the levy of an ad valorem tax.

C. Transition Initiatives

On November 16, 2007, the Board canvassed the election returns and declared the results of the confirmation and tax election, thereby:

- Expanding the boundaries of the Township;
- Authorizing the levy of an ad valorem tax;
- Enacting the regional participation agreements;
- Enacting the reorganization of the Board of Directors;
- Changing the name of the former "Town Center Improvement District of Montgomery County, Texas" to "The Woodlands Township".

In addition, a public hearing was held, thereby:

- Approving the creation of "The Woodlands Township Economic Development Zone" and its assumption of obligations for the dissolved zones;
- Imposing an incremental one percent sales and use tax within the Zone; and,
- Authorizing a sales tax funding agreement between the Zone and the Township for approved improvement projects and fire protection and other public services.

Subsequent to the fiscal year end, the governing body of the Zone ordered on March 26, 2008, the temporary and conditional exclusion from the boundaries of the Zone of all territory in Harris County until the Zone's one percent incremental sales and use tax could be imposed in that area. There are no current retail sales taxpayers in the Harris County portion of the Township.

See Note 13 for more information on The Woodlands Township Economic Development Zone and approved projects.

D. Regional Participation Agreements

Under SB 1012, regional participation agreements (RPAs) are intended to provide an equitable, alternative means of implementing essential economic development programs within the State without larger municipalities having to resort to municipal annexation. Regional participation agreements facilitate regional governmental cooperation and the funding of essential economic development and public improvement projects.

The RPAs executed with the City of Houston and the City of Conroe have each:

- Established a regional participation fund or escrow account for mutually beneficial projects within the applicable region;
- Defined payment terms, eligible projects, accounting for deposits, annexation deferral terms, as well as other contractual terms and conditions; and,
- Provided an initial list of new improvement projects or those which will enhance existing public works.

More specific details regarding each city's RPA are outlined below.

The RPA with the City of Conroe provides for:

- An initial deposit, payable by November 16, 2008, by the Township to the City of Conroe in the amount of $320,000 to be applied to selected projects;
- Following an initial three-year period, matching deposits required by the City into the regional participation fund prior to any disbursements or expenditures from the fund;
- Periodic deposits for an unlimited duration required by the Township into the regional participation fund in the amount of 1/16 of one percent of the sales and use tax collections from within the territory within Conroe's ETJ, due quarterly beginning September 30, 2008; and,
- The initial project selected under the RPA is the continuation of operations for the City of Conroe Fire Station No. 4.

In exchange, the Township received:

- Annexation deferral for a term of fifty years;
- Consent to the Township's boundary expansion;
- Consent to future elections for the purposes of incorporation of the expanded Township; and,

- The release of territory from the City's ETJ upon incorporation or adoption of an alternate form of local government by the Township.

The RPA with the City of Houston provides for:

- An initial deposit, payable by November 16, 2008, by the Township to the City in the amount of $16 million to be applied to selected projects;
- Periodic deposits for an unlimited duration required by the Township into the regional participation fund in the amount of 1/16 of one percent of the sales and use tax collections from within the boundaries of the Township in the City's ETJ, due quarterly beginning September 30, 2008;
- At the City's request, bonding of up to 30 years of estimated periodic deposits;
- Selected projects including enhancements and improvements to:
    - Major regional parks
    - Access to/from the Texas Medical Center
    - Major thoroughfares to/from the Houston Central Business District; and
    - Other mobility initiatives.

In exchange, the Township received:

- Annexation deferral for a term of fifty years;
- Consent to the Township's boundary expansion;
- Consent to future elections for the purposes of incorporation of the expanded Township; and,
- The release of territory from the City's ETJ after May 29, 2014, and upon incorporation or adoption of an alternate form of local government.

The initial deposits of $16.3 million, as required by the RPAs, are due within one year of the effective date and are recorded as "Deposits on Regional Participation Projects" along with a corresponding current liability "Contractual Obligations – due within one year" on the government-wide Statement of Net Assets. Each year, expenditures and capital outlays from the regional participation fund will be recognized as projects are identified and disbursements are made in accordance with the terms of the RPA.

E. <u>Transition Agreement</u>

Approved in October, 2007, the Memorandum of Understanding (MOU) outlined the intentions and expectations of the transitioning organizations in a more formal framework prior to the confirmation election in November, 2007. In February, 2008, a Transition Agreement structured around the MOU was executed in an effort to consolidate community services into one unified governing body.

The agreement outlines general terms, funding commitments, organizational timelines, and terms of conveyance for certain assets, liabilities, and functions. The seven parties to the Transition Agreement include:

- Property owners associations
  1. WCA – The Woodlands Community Association, Inc.
  2. TWA – The Woodlands Association, Inc.
  3. WCOA – The Woodlands Commercial Owners Association, Inc.

- Service companies
  4. WCSC – The Woodlands Community Service Corporation
  5. WFD – The Woodlands Fire Department
  6. WRC – The Woodlands Recreation Centers, Inc.

- Local government
  7. TWT – The Woodlands Township (formerly Town Center Improvement District)

Financial Implications

Immediately upon execution of the Transition Agreement, which occurred on February 1, 2008, certain assets were transferred from the POAs to the respective intermediary fiduciary service companies to be held in escrow until December 31, 2011. Effective January 1, 2012, the assets will be transferred to the Township.

Furthermore, the agreement commits sales tax collections from the expanded boundaries of the Township, as well as the incremental one percent sales tax collections from The Woodlands Township Economic Development Zone, after allowances for previously approved projects, to pay for fire and emergency services in 2009. In a separate but related funding agreement, the Township has contracted to fund $6.1 million for fire protection services provided by The Woodlands Fire Department in 2008. Funding for this agreement is derived from sales and use tax collections, effective April 1, 2008, in the newly expanded boundaries of the Township and the Zone.

Upon the implementation by the Township of an ad valorem tax (anticipated Fall, 2009) all community service functions previously the responsibility of the POAs will become the responsibility of the Township. If the Township fails to implement a property tax by December 31, 2011, the Transition Agreement terminates, with all assets reverting back to the contributing entity; however, sales tax funding for community services will still be required through May 29, 2014.

Organizational Implications

Beginning in 2008, the Township Board will appoint a majority of The Woodlands Fire Department governing body and will appoint a majority of the remaining service companies' Boards in 2009. Unless terminated prior to, according to provisions of the Transition Agreement, in 2011 the Township will:

- Appoint all of the WFD's governing body;
- Appoint all of the WCSC's governing body;
- Appoint all of the WRC's governing body;
- Have a seven-member, fully elected governing body;
- Fully fund The Woodlands Fire Department;
- Fully fund all community services; and,
- Consider the going concern of the service companies for 2012 and thereafter.

NOTE 15 – LONG-TERM LEASES

Hotel/Convention Center

The Township entered into a long-term lease ("Convention Center Lease") with The Woodlands Hotel, L.P. Under the terms of the Convention Center Lease, The Woodlands Hotel, L.P. will lease from the Township the convention center, sky bridge and a portion of the adjacent parking garage (500 spaces) for a term of 99 years. These facilities were constructed by the Township with the proceeds of bonds.

In a related matter, the Township's Board of Directors waived the purchase option for The Woodlands Waterway Marriott Hotel on March 28, 2007 as allowed in the development agreement with The Woodlands Hotel, L.P. The hotel, located within the convention center complex, is now owned by Inland American Lodging Woodlands L.P and operated by Marriott. In addition, Inland American Lodging Woodlands L.P. is the current lessee under the Convention Center Lease.

The Township is treating the Convention Center Lease as a capital lease based on the lease terms and the requirements of generally accepted accounting principles. The related capital assets are restricted under the terms of Convention Center Lease and as such the historical cost associated with the leased assets including the land has not been recorded by the Township. In 2005, the Township entered into a purchase and sale agreement with The Woodlands Land Development Company, L.P. for a tract of the Convention Center land in the amount of $300,000.

Beginning in 2003, the Township recorded and began to amortize the future minimum lease payments under the Convention Center Lease over the 99 year lease term. Under the terms of the lease, rental payments commenced on January 1, 2005, with annual base rental amounts as shown on the following table.

Year	Annual Base Rental Amount	Contingent Rental	Total Rental
2003	$ -	$ -	$ -
2004	-	-	-
2005	50,000	-	50,000
2006	100,000	-	100,000
2007	100,000	1,129	101,129

Rental payments for year five through the end of the lease term will be adjusted to an amount equal to the annual base rental for the preceding year, increased or decreased in proportion to the increase or decrease in the consumer price index, currently the Consumer Price Index for all Urban Consumers (CPI-U) Houston-Galveston-Brazoria, Texas.

The Convention Center Lease will generate $9,400,000 in total remaining lease payments from Inland American over the term of the lease. The future minimum lease payments are $1,879,221 representing the present value of the total remaining rental payments through the end of the lease term, without adjustment for future changes in the CPI-U as described above, and calculated using the Township's current incremental borrowing rate of 5.2791 percent.

The amortization of the future minimum lease payments under the Convention Center Lease for the next five years and in five year increments thereafter through the end of the lease is shown below.

Year	Principal	Interest	Total
2008	794	99,206	100,000
2009	836	99,164	100,000
2010	880	99,120	100,000
2011	927	99,073	100,000
2012	975	99,025	100,000
2013-2017	5,706	494,294	500,000
2018-2022	7,380	492,620	500,000
2023-2027	9,545	490,455	500,000
2028-2032	12,345	487,655	500,000
2033-2037	15,966	484,034	500,000
2038-2042	20,649	479,351	500,000
2043-2047	26,706	473,294	500,000
2048-2052	34,540	465,460	500,000
2053-2057	44,672	455,328	500,000
2058-2062	57,776	442,224	500,000
2063-2067	74,724	425,276	500,000
2068-2072	96,643	403,357	500,000
2073-2077	124,991	375,009	500,000
2078-2082	161,656	338,344	500,000
2083-2087	209,075	290,925	500,000
2088-2092	270,404	229,596	500,000
2093-2097	349,723	150,277	500,000
2098-2101	352,308	47,692	400,000
Total	**$ 1,879,221**	**$ 7,520,779**	**$ 9,400,000**

As a result of the Convention Center Lease, the Township reflects a deficit in total net assets under the full accrual accounting method required by GASB 34. This deficit is due to the Township retaining all debt associated with building the leased facilities and not recording the historical costs associated with the leased assets in accordance with capital lease accounting requirements of generally accepted accounting principles. At December 31, 2007, the principal amount of the Township's remaining debt on bonds issued to construct the leased facilities was $46,360,000.

Township management expects the additional activities related to the Convention Center Lease to benefit the Township generally through expanded economic development.

Cynthia Woods Mitchell Pavilion

On February 1, 2003, the Township and The Cynthia Woods Mitchell Pavilion entered into a long-term lease ("Pavilion Lease") whereby The Cynthia Woods Mitchell Pavilion is leasing a portion of the convention center parking garage for a term of 20 years. In February 2007, the Township reclaimed 128 of the original 599 leased parking spaces as allowed under the lease. Consideration for the Pavilion Lease was received by the Township prior to construction of the Convention Center parking garage in the amount of $3,550,000. The Township's costs for these facilities and related depreciation are shown below.

Category	Cost	Accumulated Depreciation	Book Value
Land	$835,713	-	$835,713
Garage (portion attributable to 599 parking spaces)	3,070,436	307,044	2,763,392
Garage signage (portion attributable to 599 parking spaces)	30,378	4,683	25,694
Total	**$3,936,527**	**$311,727**	**$3,624,800**

The Township is treating the Pavilion Lease as an operating lease based on the lease terms and the requirements of generally accepted accounting principles. Accordingly, the above land and facility costs covered by the Pavilion Lease are recorded in the Township's capital assets as of December 31, 2007.

NOTE 16 – GENERAL LONG-TERM DEBT

General long-term debt consists of Series 2001 Sales Tax and Hotel Occupancy Tax Bonds originally issued at $51 million for the Township built Convention Center. The bonds are secured by the Township's pledge of the payments it is to receive from the general sales and use tax of the Township derived at a rate of ½ of 1% of taxable sales and general hotel occupancy tax derived at a rate of 7% of room rentals. In accordance with the terms of the Bond Resolution, a Debt Service Reserve Fund is to be maintained by the Township as security for the payment of the Bonds. The total amount to be accumulated and maintained in the Debt Service Reserve Fund is $1,877,188, which is equal to one half of the maximum annual debt service on the Bonds, and was funded from the proceeds of the sale of the Bonds. As of December 31, 2007, the amount on deposit in the Debt Service Reserve Fund was $1,877,188.

The following is a summary of general long-term debt transactions for the year ended December 31, 2007:

Bonds payable, beginning of year	$ 47,670,000
Principal payments	(1,310,000)
Bonds payable, end of year	$ 46,360,000

Bonds payable at year end consisted of the following:

Series	Amounts Outstanding	Interest Rate	Principal Payment Dates Serially, Beginning/ Ending	Interest Payment Dates	Callable Date*
2001 Tax Bonds	$ 46,360,000	4.00 - 5.625%	March 1, 2004/2027	September 1/ March 1	2011

* Or any interest payment date thereafter in accordance with redemption provisions of the Bond Resolution.

Of the $46.3 million in outstanding debt for the convention center, sky bridge, and parking garage approximately $3.6 million relates to operating leases with the Cynthia Woods Mitchell Pavilion and the remainder relates to the capital lease of the convention center.

The debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2008	$ 1,365,000	$ 2,386,796	$ 3,751,796
2009	1,425,000	2,327,850	3,752,850
2010	1,485,000	2,265,084	3,750,084
2011	1,555,000	2,197,613	3,752,613
2012	1,635,000	2,117,663	3,752,663
2013-2017	9,670,000	9,091,378	18,761,378
2018-2022	12,720,000	6,035,975	18,755,975
2023-2027	16,505,000	2,254,991	18,759,991
	$ 46,360,000	**$ 28,677,349**	**$ 75,037,349**

Obligations under Capital Leases

In 2007, the Township retired the lease for a vehicle costing $14,873. In addition, leases were executed for two new copier units. Each lease is for a period of thirty-six months with combined monthly payments of $1,299. The cost of the vehicle and both copiers acquired are recorded as capital assets and are capital leases for financial reporting. As of December 31, 2007, the debt service requirements on the capitalized leases are as follows:

Year	Principal	Interest	Total
2008	$ 14,372	$ 1,214	$ 15,586
2009	15,149	437	15,586
	$ 29,521	$ 1,651	$ 31,171

Federal Tax Compliance (Arbitrage) for Tax-Exempt Debt

In accordance with provisions of Section 148 of the Internal Revenue Code of 1986, as amended, (the "Code") the Township's tax-exempt debt obligations must meet certain minimum criteria to be considered and continue to be considered tax-exempt.

This tax-exempt status means that interest income earned by purchasers of the Township's long-term debt instruments is not subject to federal income taxes. Related Treasury Regulations promulgated under section 148 of the Code generally provide that the determination of whether these obligations are tax-exempt is made as of the date such obligations are issued based on a reasonable expectation regarding the use of the proceeds of the bonds issued. Any tax-exempt debt issue that does not meet and continue to meet the minimum criteria of Section 148 of the Code and the related Treasury Regulations described above are considered "arbitrage bonds" and are not considered tax-exempt as described above.

Rebate

Tax-exempt bonds will become arbitrage bonds if certain arbitrage profits are not paid to the federal government as rebate under section 148(f) of the Code. The Township's obligations to calculate and make rebate payments (if any) will continue as long as there are gross proceeds allocable to outstanding tax-exempt debt. The Township has performed the fifth year arbitrage rebate calculation for the period July 26, 2001 to July 26, 2006 as required under section 148 (f) of the Code. Results of this calculation showed no contingent rebatable arbitrage due with respect to the bonds. The Township will perform an analysis to cover the tenth year arbitrage rebate calculation for the period through July 26, 2011.

Unexpended Tax-Exempt Debt Issuance Proceeds (Yield Restriction Requirements)

Section 148 of the Code also provides that in order for tax-exempt debt not to be considered arbitrage debt, certain proceeds require yield restriction meaning that proceeds of such debt must be invested at a yield that is not materially higher than the yield on the debt issued. The yield restriction may be accomplished by making yield reduction payments pursuant to Treasury Regulation Section 1.148-5(c). During 2007, the only unexpended debt issuance proceeds include $1,877,188 held as a reserve in the Debt Service Fund.

NOTE 17 – SIGNIFICANT PROVISIONS OF THE TOWNSHIP ACT

The Township's enabling legislation (the "Act") was recently amended by House Bill 4109, as passed by the 80th Legislature, Regular Session, of the State of Texas on June 15, 2007. Certain provisions of the Township Act, which are considered significant, are summarized below.

A. General and Specific Powers of the Township

As defined by the Act, the Township has all the rights, powers, privileges, authority, and functions conferred:

- On municipal management districts by Subchapter E, Chapter 375, Local Government Code, excluding Sections 375.161, 375.207, and 375.208;
- On conservation and reclamation districts created under Article XVI, Section 59, of the Texas Constitution;
- On road districts and road utility districts created pursuant to Article III, Section 52 and 52-a, of the Texas Constitution;
- By Chapters 49 and 54, Water Code, of the Texas Constitution;
- By Chapter 441, Transportation Code, of the Texas Constitution; and,
- Under Subchapter D, Chapter 431, Transportation Code.

In addition, the works, projects, improvements, and services provided by the Township are promoted, facilitated, and accomplished under the powers conferred by the Act, Chapter 289, Acts of the 73rd Legislature, Regular Session, 1993 and as thereafter amended. The Township will not act as the agent of any private interests, although many private interests will be benefited by the Township as will the general public.

The Township's powers and authority is limited, in that it:

- Does not have the power of eminent domain;
- May not directly employ peace officers;
- May not directly employ any fire protection personnel, before January 1, 2010; and,
- May not impose an impact fee or assessment on a single family residential property or a residential duplex, triplex, quadruplex, or condominium.

The Township Board may:

- Levy, assess, and apply taxes, fees, and charges for Township authorized purposes;
- Add territory on its own motion and without petitions only after notice and public hearing, and subject to a confirmation election;
- Conduct public hearings required for certain rules and regulations;
- Enforce rules and ordinances in accordance with Section 54.001, Local Government Code;
- Create an economic development zone on its own motion or upon receipt of a petition of property owners and exercise economic development powers of Chapter 380, Local Government Code;
- Call elections for:
    - Incorporation as a municipality or the release from the ETJ of a municipality;
    - Adoption of another form of local government;
    - Authorizing or discontinue the levy of taxes;
    - Authorizing the issuance of bonds or other indebtedness;
    - Election of directors or reorganization of the Board; or
    - Addition or exclusion of territory.
- Borrow money or issue bonds for the corporate purposes of the Township;
- Undertake separately or joint improvement projects for the Township;
- Contract off-duty peace officers for special event, holiday, or traffic congestion public safety services;
- Contract with any person, entity, or other political subdivision for the accomplishment of any of the Township's purposes, with limited exceptions for public safety personnel;
- Elect to dissolve the Township at any time upon the repayment, discharge, or assumption by other governmental entity of any outstanding indebtedness or contractual obligations.

B. Board of Directors

The Township Act requires that each director appointed or elected must take the oath of office prescribed by the constitution for public officers and execute a bond for $10,000 payable to the Township and conditioned on the faithful performance of duties. All bonds of the directors shall be approved by the Board.

Qualifications to serve as a director include 1) a person at least 18 years of age, and 2) a resident of the Township. Directors are not compensated for service on the Board.

C. Bonded Indebtedness

The Township Act authorizes the Township to issue bonds in accordance with specific sections of the Local Government Code. Bonds issued by the Township for the primary purpose of providing water, sewage or drainage facilities must be approved by the Texas Commission on Environmental Quality in the manner provided by Chapter 49 of the Texas Water Code.

Bonds issued by the Township may be secured and made payable, wholly or partly, by a pledge of any part or combination of the net proceeds of:

1) a specified portion, but not more than one-half percent of the Township's sales tax;
2) the Township's hotel occupancy tax;
3) an ad valorem tax;
4) any contracted revenues or proceeds including those from economic development zones

D. Other Provisions

The Township may contract with area municipalities, other political subdivisions, corporations and individuals to achieve its purposes. Contracts for security services and interlocal contracts with area municipalities and other political subdivisions for law enforcement assistance within the Township have been entered into by the Township.

In addition, the Township, only after a public hearing, may adopt and enforce rules and regulations related to real property owned by the Township or any real property in which the Township has an interest. Any and all fines or other penalties collected for a violation of a Township rule is remitted to the County.

For purposes of open meetings and records laws and application of related statutes, the Township is considered a municipal utility district.

Competitive bids for construction work or the purchase of material or equipment is required for expenditures greater than $25,000.

NOTE 18 - OPERATING LEASE AGREEMENTS

In September 2003, the Township entered into an operating lease agreement for office space starting January 2004. Monthly payments for the office lease began in September 2004 at a monthly base rent of $21,769 through June 2009, and $22,639 per month for the remaining lease term. Approximate monthly payments for equipment leases are $133; all other leases are month-to-month and can be cancelled at anytime without penalty. Annual payments under these leases are shown below.

Year	Office	Equipment	Total
2008	261,225	1,602	262,827
2009	266,450	1,602	268,051
2010	271,674	400	272,074
2011	271,674	-	271,674
2012	271,674	-	271,674
2013-2014	475,430	-	475,430
	$ 1,818,126	$ 3,604	$ 1,821,730

During the year ended December 31, 2007, the Township incurred lease expenditures of $272,568 in the governmental funds and $263,425 in the government-wide financial statements that included $137,579 in accrued rent that will be paid over the remaining lease term.

NOTE 19 - PENSION PLAN

The Township established a simplified employee pension plan (SEP) on July 1, 1994, that covers all of the Township's employees. A SEP is a tax-deferred retirement plan providing pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions and forfeitures of other participant's benefits that may be allocated to such participant's account. Contributions made by the Township vest immediately.

An employee who leaves the employment of the Township is entitled to all contributions, plus any accumulated earnings in that employee's account. The provisions and contributions set by the Township to be paid into the plan are determined by the Board of Directors and the rules that govern SEP plans. For the year ended December 31, 2007, the Township contributed 8.7 percent of each covered employee's salary for total contributions of $117,241. This is a non-participating plan. The plan is fully funded on a current basis and is administered by an independent brokerage firm.

The Township does not make contributions to any other type of post employment benefit programs.

NOTE 20 – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injuries; and, natural disasters. The risk of loss is covered by commercial insurance carriers and through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP). The participation of the Township in TML-IRP is limited to payment of premiums for real and personal property, errors and omissions, general liability, and workers' compensation coverage. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The Township and the Zones have received more than $10,000 in combined equity distributions from the liability and property funds of the Pool since 2003. These distributions are a return of member equity and are determined by the Pool based on eligibility requirements for each member and changes in Pool equity for each year. The amount of equity returns is based on favorable loss ratios and length of membership with the Pool for each member.

APPENDIX B
EXCERPTS OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

Following are certain selected provisions of the Bond Resolution. These provisions are not to be considered a full statement of the terms of the Bond Resolution. Accordingly, these selected provisions are qualified in their entirety by reference to the Bond Resolution and are subject to the full text thereof.

SECURITY FOR THE BONDS. . . The Pledged Revenues are hereby pledged to the payment of the principal of and the interest on the Bonds, the Outstanding Bonds and any Additional Parity Bonds issued in conformity with the provisions of this Resolution to the extent and in the manner herein set forth. The Pledged Revenues shall immediately be subject to the lien of such pledge, without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding against all parties having a claim of any kind in tort, contract or otherwise against the Township, irrespective of whether such parties have notice thereof. Except as hereinafter provided otherwise, the lien and pledge hereby created shall remain in full force and effect until the Bonds, the Outstanding Bonds and any Additional Parity Bonds have been paid in full, as to both principal and interest, at their scheduled maturities, or upon their earlier redemption, or by reason of the defeasance and discharge of such Bonds, as hereinafter provided in this Resolution.

LIMITED OBLIGATIONS. . . The Bonds, the Outstanding Bonds and any Additional Parity Bonds are and shall be limited obligations of the Township payable solely out of and secured solely by a lien on and pledge of the Pledged Revenues, and any amounts from time to time on deposit in or belonging to the Debt Service Fund and the Debt Service Reserve Fund, as herein provided. Neither the State of Texas nor any other political subdivision or agency thereof shall be obligated to pay the principal of or interest on the Bonds, and neither the faith and credit nor the taxing power of the State of Texas, the Township or any other political subdivision or agency thereof is pledged to the payment of the principal of or interest on the Bonds. Except to the extent provided herein, the Bonds shall never be paid in whole or in part out of any funds raised or to be raised by taxation, including, without limitation, ad valorem, hotel occupancy, sales, use, incremental, excise, income or general purpose taxes, or out of any other funds, resources, assets or revenues of the Township.

COLLECTION OF SALES TAX. . . So long as any of the Bonds shall remain outstanding, the Township covenants and agrees that it will use reasonable diligence and will take all actions and measures as may be deemed appropriate under the circumstances to timely and fully enforce and collect the Hotel Occupancy Tax and the Sales Tax and make all payments from Pledged Revenues into the Debt Service Fund and the Debt Service Reserve Fund required hereunder and to preserve and protect the existence and priority of the pledge of and lien on the Pledged Revenues including, but not limited to, where deemed appropriate, the institution of arbitration proceedings and/or suits for collection of delinquent accounts; provided, however, that so long as the Township shall have made all payments and deposits required hereunder, the failure or inability of the Township to receive and collect all or any portion of the Hotel Occupancy Tax or the Sales Tax shall not, under any circumstances, be deemed to constitute a default in either payment or performance by the Township hereunder.

CONFIRMATION AND CONTINUATION OF TAXES. . . The imposition, assessment and levy of the Hotel Occupancy Tax and the Sales Tax by the Township are hereby approved, adopted, ratified and confirmed. So long as any of the Bonds shall remain outstanding, the Township covenants and agrees that except as herein expressly authorized, neither the Township, the Board of Directors nor any Person acting under the control or direction of the Township shall take, suffer or permit, or fail or omit to take, any action which would or may (i) result in the repeal, abolition or reduction of (A) the Hotel Occupancy Tax to a rate less than seven percent (7%) on the price paid for a hotel room within the boundaries of the Township, or (B) the Sales Tax to a rate less than one-half of one percent (1/2%), or (ii) otherwise impair the pledge of and lien on the Pledged Revenues; provided, however, that nothing herein shall be deemed or construed to require the Township to contest, oppose, hinder, object to or remedy any proposed change in use, demolition, razing, removal or destruction of any retail sales or hotel properties now existing or hereafter situated within the Township; and provided further, that the Township may, in its discretion, take any action or proceedings deemed necessary and proper to exclude from the boundaries of the Township any properties which have never been or have ceased for more than 180 consecutive days to be used for retail sales or hotel purposes or which in the preceding 180 days have not produced material Sales Tax and Hotel Occupancy Tax revenues to the Township.

CONFIRMATION OF FUNDS. . . The creation and establishment pursuant to the 2001 Resolution of the following funds are hereby confirmed:

(a) The General Fund;
(b) The Debt Service Fund; and
(c) The Debt Service Reserve Fund;

Each of such Funds shall be kept separate and apart from all other funds of the Township. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the benefit of the Holders of the Bonds and any Additional Parity Bonds. The Township reserves the right to create, establish and maintain, by separate resolution, order or agreement, one or more additional funds or accounts to facilitate delivery of the Bonds and to provide for the receipt, investment, reinvestment, transfer, withdrawal, expenditure and/or other disposition of the proceeds received from the sale and delivery of the Bonds; provided, however, that such funds or accounts shall be used solely for the purposes herein described and shall be secured and invested in a manner consistent herewith.

GENERAL FUND. . . The Township shall deposit, as collected, the proceeds of the Sales Tax and the Hotel Occupancy Tax into the General Fund, and the portion of such Sales Tax and Hotel Occupancy Tax proceeds consisting of Pledged Revenues shall be used for the following purposes and in the following order and priority:

(a) To make transfers periodically, but not less frequently than monthly, into the Debt Service Fund of such amounts, if any, as shall be necessary to pay Debt Service on the Bonds, the Outstanding Bonds and any Additional Parity Bonds during the remainder of the then current Fiscal Year;

(b) To make transfers into the Debt Service Reserve Fund, when and as required, of such amounts, if any, as shall be necessary to replenish and to maintain therein the Required Reserve;

(c) To make periodic transfers into a debt service fund or funds created for the benefit of any Additional Subordinate Lien Bonds; and

(d) For any lawful purpose of the Township.

In each Fiscal Year, and as the first use of Pledged Revenues, the Township shall transfer or cause to be transferred, as received, all Pledged Revenues on deposit in or belonging to the General Fund to the credit of the Debt Service Fund in an amount sufficient, together with other amounts, if any, then on hand in the Debt Service Fund and available for such purpose, to pay (i) Debt Service, (ii) Paying Agent charges and expenses, and (iii) projected excess arbitrage earnings in respect of the Bonds, the Outstanding Bonds and any Additional Parity Bonds to become payable in that Fiscal Year. Subject and subordinate to such payments, if, on any occasion, the Required Reserve shall not be on deposit in the Debt Service Reserve Fund, then such deficiency shall be made up as soon as possible from the next available Pledged Revenues, or from any other sources available for such purpose. After making the required deposits to the credit of the Debt Service Fund and the Debt Service Reserve Fund, when and as required by this Resolution, or any resolution or order authorizing the issuance of the Outstanding Bonds or any Additional Parity Bonds, any remaining Pledged Revenues in the General Fund and any Pledged Revenues deposited into the General Fund during the remainder of such Fiscal Year may be used by the Township, free and clear of the lien and pledge hereof, for making required transfers into any debt service fund or funds for the benefit of any Additional Subordinate Lien Bonds or for any lawful purpose of the Township.

DEBT SERVICE FUND. . . The Township shall cause to be deposited into the Debt Service Fund from Pledged Revenues on deposit in or to the credit of the General Fund, or (to the extent sufficient Pledged Revenues are not available for such purposes) from funds credited to or on deposit in the Debt Service Reserve Fund the amounts required by Sections 7.03 and 7.05 hereof, and (i) not later than the second (2nd) day preceding each Maturity Date, Redemption Date and/or Interest Payment Date on the Bonds, the Outstanding Bonds or any Additional Parity Bonds, the amounts required for the payment of (A) interest which accrues on the Bonds, the Outstanding Bonds or any Additional Parity Bonds on the ensuing Interest Payment Date, (B) the amounts required for the payment of the principal due on the Bonds, the Outstanding Bonds or any Additional Parity Bonds on such date, and (C) the amounts chargeable by the Paying Agent for handling interest and principal payments on the Bonds, the Outstanding Bonds or any Additional Parity Bonds on such dates shall be transferred to the Paying Agent, and (ii) not later than the due date thereon, the Township shall cause to be paid to the United States Treasury any amounts representing excess arbitrage earnings in respect of the Bonds, the Outstanding Bonds or any Additional Parity Bonds to be rebated to the United States Treasury pursuant to Section 8.01 hereof or the applicable provisions of any resolutions or orders authorizing the issuance of Additional Parity Bonds.

DEBT SERVICE RESERVE FUND

(a) Immediately after delivery of the Initial Bonds to the Underwriter, the portion of the proceeds of sale of the Bonds representing the Required Reserve shall be deposited into the Debt Service Reserve Fund. The Township reserves the right, upon or at any time following the delivery of the Bonds to the Underwriter, and to the extent now or hereafter permitted by applicable law, to deposit to the credit of the Debt Service Reserve Fund one or more Reserve Fund Obligations in lieu of, in substitution for or in addition to cash or cash equivalents, and to pay the premiums, commitment fees or issuance costs of same out of the proceeds of the Bonds, amounts on deposit in the Debt Service Reserve Fund or other lawfully available funds of the Township. After deposit (i) from the proceeds of the sale of the Bonds and/or (ii) of one or more Reserve Fund Obligations to the credit of the Debt Service Reserve Fund in an amount at least equal to the Required Reserve, no further deposits need be made into the Debt Service Reserve Fund so long as the money and investments, together with any Reserve Fund Obligation, in the Debt Service Reserve Fund are at least equal in market value to the Required Reserve, but if and when, from time to time, the market value of money and investments, together with any Reserve Fund Obligation, in the Debt Service Reserve Fund is reduced below the Required Reserve because of a decrease in market value of investments, then, subject and subordinate to making the required deposits to the credit of the Debt Service Fund, such deficiency shall be made up as soon as possible from the next available Pledged Revenues, or, at the discretion of the Township, be made up from any other sources lawfully available for such purpose. In the event the Debt Service Reserve Fund is used to pay the principal of or interest on the Bonds, the Outstanding Bonds or any Additional Parity Bonds because of insufficient amounts being available in the Debt Service Fund (or the Required Reserve is not on deposit in the Debt Service Reserve Fund as the result of the issuance of Additional Parity Bonds), then the Township shall, subject to the order and priority of payments set forth in Section 7.03 above, transfer or cause to be transferred Pledged Revenues on deposit in the General Fund for deposit to the credit of the Debt Service Reserve Fund equal in amount to the difference determined as of such date between the amount in the Debt Service Reserve Fund and the Required Reserve. For purposes of calculating the amount on hand in the Debt Service Reserve Fund, an amount equal to the maximum available amount which may be drawn under any Reserve Fund Obligation shall be deemed to be on deposit in the Debt Service Reserve Fund. During any period in which the money and investments credited to the Debt Service Reserve Fund, taking into account any Reserve Fund Obligation, are equal to or exceed the Required Reserve in market value, then during such period all investment earnings and income from the Debt Service Reserve Fund shall be deposited upon receipt to the credit of the Debt Service Fund.

(b) The portion of the Debt Service Reserve Fund equal to the Required Reserve shall be used only for the purpose of paying principal of or interest on the Bonds or the Outstanding Bonds or any Additional Parity Bonds when there is not sufficient money available in the Debt Service Fund for such payments, and shall be used finally to pay, redeem or retire the last of the outstanding Bonds or the Outstanding Bonds or any Additional Parity Bonds. The Township may from time to time, in its sound discretion, withdraw and use, for any lawful purpose, all surplus in the Debt Service Reserve Fund over and above the Required Reserve. *(The Required Reserve is equal to the lesser of (i) one half (1/2) maximum annual Debt Service on the Bonds, the Outstanding Bonds and any Additional Parity Bonds during any fiscal year, or (ii) the amount permissible under applicable federal tax law as a reasonably required reserve of replacement fund for the Bonds, the Outstanding Bonds and any Additional Parity Bonds.)*

(c) The Debt Service Reserve Fund shall secure and be used to pay the Bonds, the Outstanding Bonds and any Additional Parity Bonds in the manner and to the extent provided herein; provided, however, that each resolution pursuant to which Additional Parity Bonds are issued shall provide and require that (i) the aggregate amount to be accumulated and maintained in the Debt Service Reserve Fund shall be increased (if and to the extent necessary) to the Required Reserve required after the issuance of such Additional Parity Bonds; and (ii) the required additional amount, if any, shall be so accumulated by the deposit in the Debt Service Reserve Fund of all of said required additional amount in cash or a Reserve Fund Obligation immediately after the delivery of the then proposed Additional Parity Bonds.

(d) Notwithstanding any other provisions of this Resolution, an equivalent Reserve Fund Obligation may be substituted by the Township at any time, and from time to time, for all or any part of the money and/or investments held for the credit of the Debt Service Reserve Fund; whereupon, such money and/or investments may be withdrawn and used for any lawful purpose. If a Reserve Fund Obligation is used as provided above, any reimbursements required thereunder to be paid to a Credit Facility Provider as a result of a draw or demand thereunder and any interest thereon and expenses payable thereunder shall be made, as provided in the Reserve Fund Obligation, from moneys deposited into the Debt Service Reserve Fund until fully paid. If it becomes necessary to pay interest on or principal of any Bonds from the Debt Service Reserve Fund, money and investments held for the credit of the Debt Service Reserve Fund shall be utilized first for such purpose, before any demand or draw is made on a Reserve Fund Obligation.

(e) A Reserve Fund Obligation permitted under (d) above, must be a Credit Facility in the form of a surety bond, municipal bond guaranty insurance policy, or letter of credit meeting the requirements described below:

(1) A surety bond or municipal bond guaranty insurance policy issued to the Township or another Person, as agent of the Holders, by a company licensed to issue a municipal bond guaranty insurance policy guaranteeing the timely payment of Debt Service on the Bonds or the Outstanding Bonds or any Additional Parity Bonds if the claims paying ability of the issuer thereof shall be rated by at least two of the following Rating Agencies in the indicated rating categories: “AAA” by S&P or Fitch, or “Aaa” by Moody's.

(2) A surety bond or municipal bond guaranty insurance policy issued to the Township or another Person, as agent of the Holders, by an entity other than an issuer described in clause (1) above, if the form and substance of such instrument and the issuer thereof shall be approved in writing by the Insurer of the Outstanding Bonds and each insurer of any Additional Parity Bonds.

(3) An unconditional, irrevocable letter or line of credit issued to the Township or other Person, as agent of the Holders, by a bank if the issuer thereof is rated by at least two of the following Rating Agencies in the indicated rating categories: at least “AA” by S&P or Fitch, or “Aa” by Moody's. The letter or line of credit shall be payable in one or more draws upon presentation by the Township or another Person, as agent of the Holders, of a sight draft accompanied by its certificate (which must be satisfactory in form and substance to the Township or such other Person and the issuer of the letter or line of credit) that the Township then holds insufficient funds to make a required payment of principal or interest on the Bonds or the Outstanding Bonds or any Additional Parity Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter or line of credit shall be for a term of not less than three years and shall be subject to an “evergreening” feature so as to provide the Township with at least thirty (30) months notice of termination. The issuer of the letter or line of credit shall be required to notify the Township not later than 30 months prior to the stated expiration date of the letter or line of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date. If such notice indicates that the expiration date shall not be extended, the Township shall deposit in the Debt Service Reserve Fund, in accordance with this Section 7.05, an amount sufficient to cause the money or investments on deposit in the Debt Service Reserve Fund, together with any other qualifying Reserve Fund Obligations, to accumulate to the Required Reserve, unless the expired Reserve Fund Obligation is replaced by a Reserve Fund Obligation meeting the requirements set forth in clauses (1), (2) or (3), above. The letter or line of credit shall permit a draw in full prior to its expiration or termination, notwithstanding the sufficiency hereunder of the funds then on hand in the Debt Service Fund, if the letter or line of credit has not been replaced or renewed. The Township or another Person, as agent of the Holders, shall draw upon the letter or line of credit prior to its expiration or termination, unless an acceptable replacement is in place or the Debt Service Reserve Fund is fully funded to the Required Reserve, and deposit the proceeds received from such draw into the Debt Service Reserve Fund.

(4) The obligation to reimburse the issuer of a Reserve Fund Obligation for any expenses, claims, or draws upon such Reserve Fund Obligation, including interest thereon, shall be made from the deposits made to the Debt Service Reserve Fund, as provided in this Section 7.05, and in accordance with the provisions of the Reserve Fund Obligation. The Reserve Fund Obligation shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Fund Obligation to reimbursement will be subordinated to the cash replenishment of the Debt Service Reserve Fund to an amount equal to the difference between the full original amount available under the Reserve Fund Obligation and the amount then available for further draws or claims. In the event (A) the issuer of a Reserve Fund Obligation becomes insolvent, or (B) the issuer of a Reserve Fund Obligation defaults in its payment obligations thereunder, or (C) the claims paying ability of the issuer of a municipal bond guaranty insurance policy or surety bond falls below “AAA” by S&P or Fitch, or “Aaa” by Moody's, or (D) the rating of the issuer of the letter or line of credit falls below “AA” by S&P or Fitch, or “Aa” by Moody's, the obligation to reimburse the issuer of the Reserve Fund Obligation shall be subordinate to the cash replenishment of the Debt Service Reserve Fund.

(5) In the event (A) the revolving reinstatement feature described in the preceding clause (4) is suspended or terminated, or (B) the rating of the claims paying ability of the issuer of a surety bond or municipal bond guaranty insurance policy falls below “AAA” by S&P or Fitch, or “Aaa” by Moody's, or (C) the rating of the issuer of the letter or line of credit falls below “AA by S&P or Fitch, or “Aa” by Moody's, or (D) the issuer of the Reserve Fund Obligation defaults in its payment obligations hereunder, or (E) the issuer of the Reserve Fund Obligation becomes insolvent, the Township shall either (i) deposit into the Debt Service Reserve Fund, in accordance with this Section 7.05, an amount sufficient to cause the money or investments on deposit in the Debt Service Reserve Fund to accumulate to the Required Reserve, or (ii) replace such instrument with a surety bond, municipal bond guaranty insurance policy, or letter or line of credit meeting the requirements set forth in clauses (1), (2) or (3), above, within six months of such occurrence.

(6) Where applicable, the amount available for draws or claims under a Reserve Fund Obligation may be reduced by the amount of money or investments deposited in the Debt Service Reserve Fund pursuant to the preceding clause (5).

(7) The Township shall ascertain the necessity for a claim or draw upon any Reserve Fund Obligation and provide notice to the issuer of the Reserve Fund Obligation in accordance with its terms not later than three days (or such earlier time period as will, when combined with the timing of required payment under the Reserve Fund Obligation, ensure payment under the Reserve Fund Obligation on or before the Interest Payment Date) prior to each Interest Payment Date.

(8) Cash on deposit in the Debt Service Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Fund Obligation. If and to the extent that more than one Reserve Fund Obligation is deposited in the Debt Service Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

ADDITIONAL PARITY BONDS. . . The Township expressly reserves the right to issue Additional Parity Bonds upon such terms and conditions as the Township deems advisable; provided, however, that it shall be a condition precedent to the issuance of such Additional Parity Bonds, other than refunding bonds, that the Pledged Revenues received by the Township for the most recently completed Fiscal Year, or during any period of twelve (12) consecutive calendar months out of the eighteen (18) months next preceding the adoption of the resolution authorizing the issuance of such proposed Additional Parity Bonds, shall have been not less than 1.30 times the maximum annual principal and interest payments scheduled to become due on the Outstanding Bonds, the remaining outstanding Bonds and Additional Parity Bonds, if any, and estimated to become due on such proposed Additional Parity Bonds for purposes of calculating maximum annual principal and interest payments pursuant to the Section, any Additional Parity Bonds or proposed Additional Parity Bonds bearing or accruing interest at a variable rate shall be assumed to bear or accrue interest at the assumed rate to be used in calculating the Required Reserve hereunder.

ADDITIONAL SUBORDINATE LIEN BONDS. . . The Township further reserves the right to issue Additional Subordinate Lien Bonds in one or more installments and upon such terms and conditions as the Township deems advisable.

REFUNDING BONDS. . . The Township further reserves the right to issue refunding bonds in any manner permitted by law to refund the Bonds, the Outstanding Bonds and any Additional Parity Bonds at or prior to their respective dates of maturity or redemption.

OTHER BONDS . . . The Township further reserves the right to issue other bonds, notes or indebtedness, including, without limitation, special project bonds, for any lawful purpose, so long as same are payable from and secured by any resources, assets, income or revenues of the Township, other than the Pledged Revenues.

APPENDIX C
FORM OF BOND COUNSEL OPINION

- Date -

WE HAVE ACTED AS BOND COUNSEL for The Woodlands Township, a political subdivision of the State of Texas situated in Montgomery County and Harris County, Texas (the "Township"), which we also represent on certain other matters, in connection with the issuance by the Township of its $17,830,000 Sales Tax and Hotel Occupancy Tax Bonds, Series 2009, initially dated as of January 15, 2009 (the "Bonds").

WE HAVE ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. In such regard, we have not investigated or verified original proceedings, records, data or other material, but have relied upon certificates executed by officers, agents and representatives of the Township and other public officials. We have assumed no responsibility with respect to the financial condition of the Township or the reporting or disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Township's Official Statement, dated _______________ 2009, has been limited as described therein.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified materials pertaining to the Bonds which contains certified copies of certain proceedings of the Board of Directors of the Township, including the resolution authorizing the issuance, sale and delivery of the Bonds (the "Bond Resolution"), together with customary certificates of officers, agents and representatives of the Township, and other certified showings relating to the authorization and issuance of the Bonds, and we have examined executed Bond No. IR-09, maturing September 1, 2009.

BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT:

1. The Township has been validly created and organized; the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; and therefore, the Bonds are valid and legally binding obligations of the Township, and the Bonds are secured by and are payable from a valid pledge of and lien on the Pledged Revenues, as defined in the Bond Resolution, as same are imposed, levied and collected in accordance with the provisions set forth in the Bond Resolution.

2. Except as discussed below, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion.

3. The Bonds are not "private activity bonds" within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, a REIT, a REMIC or a FASIT) for purposes of computing its alternative minimum tax under Section 55 of the Code.

4. The Bonds are "qualified tax-exempt obligations" under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion.

The Township has reserved the right under the conditions and circumstances specified in the Bond Resolution to issue additional bonds payable from and secured by a pledge of and lien on the Pledged Revenues on a parity with the Bonds, or subordinate thereto.

In providing the foregoing opinions, we have relied upon representations of the Township with respect to matters solely within the knowledge of the Township, which we have not independently verified, and we have assumed the accuracy and completeness of, and the Township's continuing compliance with, the representations and covenants contained in the Bond Resolution and in the Township's federal tax certification, of even date herewith, pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete, or the Township fails to comply with such covenants, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the acquisition, ownership, carrying or disposition of the Bonds, nor do we express any opinion with respect to any legislation, rules or regulations affecting the Bonds which may be enacted or promulgated after the date hereof.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to a "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest, such as interest on the Bonds).

The Township's obligations with respect to the Bonds are subject to limitation by applicable laws relating to bankruptcy or reorganization and other similar laws which may from time to time affect the rights of creditors of political subdivisions generally.

The Bonds are obligations solely of the Township and are not obligations of the State of Texas, Montgomery County or any other entity or political subdivision which overlaps the Township in whole or in part.